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Politics this week

Jan 6th 2005
From The Economist print edition

Asia's tsunami

Getty Images

The confirmed death toll from Asia's **tsunami** rose to about 150,000, with thousands still missing. Aid workers had yet to reach all of Aceh, the northern tip of Indonesia's island of Sumatra, and several of India's badly hit Andaman and Nicobar islands. But in most afflicted parts, in Sri Lanka and Thailand as well as Indonesia and India, vast quantities of relief aid were beginning to reach survivors. World leaders attended a disaster summit in Jakarta. Some $4 billion has been promised so far.

See article

Vote if you dare

The insurgency in **Iraq** may be worsening in the run-up to a general election on January 30th, with nearly 70 Iraqi policemen, national guardsmen and security forces killed since the new year, along with at least eight Americans. The provincial governor of Baghdad was assassinated, the highest-ranking victim for eight months. Though Iraq's president, Ghazi al-Yawar, the most senior Sunni Arab official, suggested that the UN should decide whether to postpone the election, the interim prime minister, Iyad Allawi, insisted it be held on time.

See article

Iraq's intelligence minister said there were now more insurgents—some 200,000, he guessed, of whom he deemed 40,000 “hard core”—operating against 150,000-odd American troops.

Jordan hosted a conference of Iraq's neighbours to promote support for the election. Iran's foreign minister stayed away, after Jordan's King Abdullah had accused Iran of meddling in the campaign.

Israel's United Torah Judaism, an orthodox group with five seats in parliament, decided to join Ariel Sharon's Likud party and Shimon Peres's Labour party in a government coalition pledged to achieve the withdrawal, probably this summer, of Israeli forces and Jewish settlers from the Gaza strip. Meanwhile, opinion pollsters said that Mahmoud Abbas (also known as Abu Mazen) seemed set to win the Palestinian presidential election on January 9th.

See article

The International Atomic Energy Agency, the UN's nuclear watchdog, has found evidence of secret nuclear experiments in **Egypt**, according to western diplomats. Most were said to have been carried out in the 1980s and 1990s, but the IAEA was reported to be looking at evidence that some research was conducted only a year ago.

The Egyptian government said its nuclear programme was peaceful.

A comprehensive peace treaty between the **Sudanese** government and southerners who have for two decades been seeking autonomy (or more) came closer after talks in Kenya, while separatists in **Senegal's** Casamance region also struck a deal with the central government in Dakar. But a hoped-for accord between the Lord's Resistance Army in the north of **Uganda** and the country's government fell apart.

See article

A date with destiny

President Jacques Chirac announced that **France's** referendum on the European Union's draft constitution will be held before the summer—probably in June.

See article

Croatia's presidential election will go to a second round on January 16th, after the incumbent, Stipe Mesic, narrowly failed to win the 50% majority required in the first round on January 2nd. Two days later the foreign minister, Miomir Zuzul, resigned after accusations of involvement in a bribery scandal.

Spain's prime minister, José Luis Rodríguez Zapatero, said that a plan by the Basque region to put its independence to a vote violated the country's constitution. The Basque parliament intends to press ahead.

Russia's president, Vladimir Putin, dismissed his top economic adviser, Andrei Illarionov, as his personal representative for G8 summit preparations, after Mr Illarionov criticised the forced sale of the oil assets of Yukos as the “swindle of the year”.

See article

Latin dance tragedy

EPA

In Buenos Aires, **Argentina's** capital, a fire in a dance hall killed at least 186 people, most of them teenagers. The fire began when concert-goers threw flares. Grieving relatives marched to demand the resignation of the city's mayor, Aníbal Ibarra.

See article

Augusto Pinochet, **Chile's** former dictator, was placed under house arrest after the country's Supreme Court ruled that he could be tried on charges of murder and kidnapping, rejecting defence arguments that the elderly general was unfit to face trial because of dementia.

Four policemen and two rebels were killed when 150 armed supporters of an ultra-nationalist movement seized a police station in a town in **Peru's** southern Andes, calling for Alejandro Toledo, the country's democratic president, to resign. Their leader was arrested after talks with a government emissary.

See article

AFP

Colombia's government extradited Simón Trinidad, a leader of the FARC guerrilla group, to the United States, where he faces charges of drug trafficking and kidnapping Americans. The FARC had rejected an offer by President Álvaro Uribe not to extradite Mr Trinidad if the group agreed to talks aimed at freeing several hundred hostages.

A farm in Alberta was quarantined after two cases of BSE were discovered. The United States Department of Agriculture said the cases of mad-cow disease would not affect its plan to lift in March a ban on the import of **Canadian beef** imposed after a BSE case two years ago.

Torture practice

America's Justice Department published a memo expanding its definition of what constitutes **torture**, calling the practice “abhorrent to American law and values”. Alberto Gonzales, the White House's chief legal counsel and George Bush's choice as the next attorney-general, commissioned a previous memo that restricted the definition of torture.

William Rehnquist, the ailing chief justice of America's Supreme Court, raised concerns about the **independence of federal judges**, suggesting that they need to be protected from threats of impeachment if they make decisions that are politically unpopular.

Governor Arnold Schwarzenegger called for a special session of **California's** legislature to consider ways of restricting future spending and to redraw the state's electoral boundaries, which he said result in political gridlock.

See article

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Business this week

Jan 6th 2005
From The Economist print edition

On trial

The trial began of Richard Scrushy, the former chief executive of **HealthSouth**. He is accused of fraudulently inflating the profits of the American health-care giant by some $2.7 billion and is the first CEO of a large firm to be charged under the Sarbanes-Oxley law with knowingly filing a false financial statement.

James Zimmerman, boss of **Federated Department Stores** until last January, was charged with perjury for statements he made during an investigation of anti-competitive behaviour by the American store group. Federated (and others) paid fines in August to settle accusations that they had dissuaded Waterford Wedgwood from supplying glassware and china to a competitor.

Kirk Shelton, the former vice-chairman of **Cendant**, a travel and property services group, was found guilty of overstating company revenue to the tune of some $500m. Cendant's share price collapsed in 1998 after the fraud was first uncovered, wiping $14 billion from the company's market value.

America's Securities and Exchange Commission charged Ricardo Salinas Pliego, one of Mexico's richest men, with fraud after a lengthy probe into dealings between **TV Azteca**, a big Spanish-language TV company of which he is chairman, and a private company that he owns. Mr Salinas Pliego is accused of reaping an ill-gotten $109m.

Suppressing depression

Eli Lilly said that there was no new clinical or scientific information in documents handed to America's Food and Drug Administration by the *British Medical Journal* on the adverse side effects of its bestselling antidepressant, Prozac. The *BMJ* recently claimed that the pharmaceutical giant suppressed information compiled for a lawsuit in the 1990s. Meanwhile, the world's largest drug companies promised to make more data on clinical trials publicly available.

AstraZeneca withdrew its application for regulatory approval in the European Union of **Iressa**, a lung-cancer treatment, after clinical trials showed that it was ineffective at prolonging survival. The British drug giant is now considering the future of Iressa in America and Japan, where it has been on sale for some time.

Viktor Khristenko, Russia's energy minister, added to confusion over the eventual ownership of **Yuganskneftegaz** by suggesting that the Chinese National Petroleum Corporation may take a 20% stake.

Microsoft announced a series of deals to expand its role in digital entertainment. Partners will include Viacom and Yahoo!, as well as Sony if discussions lead to a deal. All have Apple in their sights.

Delta Air Lines, America's third largest carrier, said it was introducing a series of competitive measures and announced a cut of up to 50% on its domestic airfares. Other changes promised by the troubled company include a

“revision” of the food served on its flights.

Gucci poached Valérie Hermann from rival fashion group LVMH to run its struggling Yves Saint Laurent brand.

The **New York Times Company** agreed to pay $16.5m for a 49% stake in *Metro Boston*, a free daily aimed at the Massachusetts capital's commuters. However, the publisher of a rival publication, the *Boston Herald*, promised to fight the deal, claiming it was “anti-competitive”.

Confirming Nippon Steel's pace-setting deal last month, giant South Korean steelmaker **POSCO** agreed to more than double what it pays BHP Billiton and Rio Tinto for Australian coal.

See article

Leaving the Bank

James Wolfensohn confirmed that he intends to step down as president of the World Bank, after ten years in the job, when his current term expires in May.

Euronext, a European stock-exchange operator, said that it would move to London in its bid to win the battle to buy the London Stock Exchange. Deutsche Börse, its German rival for the LSE, raised the possibility of moving its Eurex derivatives business to London. Meanwhile, Euronext also entered talks to buy MTS, an electronic-trading platform for bonds.

Rating economic liberalism

The Heritage Foundation's **annual index of economic freedom** produced a surprise: America fell out of the top ten for the first time since the measure was created in 1995. The index gave the top honour to Hong Kong, followed by Singapore. Haiti suffered the steepest drop in its rating since last year, and North Korea took the wooden spoon again.

Economic freedom, 2005

Selected countries	Rank
Hong Kong	1
Britain	7
United States	12
Brazil	90
China	112
Russia	124
Venezuela	146
North Korea	155

Source: Heritage Foundation/ *Wall Street Journal*

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Asia's tsunami

Helping the survivors

Jan 6th 2005
From The Economist print edition

Relief is getting through, mostly. Longer-term reconstruction will be more difficult

AP

THE world's response to the horrors wrought by the Indian Ocean tsunami has been extraordinary. As well as offering up their sympathy and prayers, people everywhere have dug deeper than ever into their pockets. The task now will be to make that generosity count, in an enduring way.

Even before George Bush senior and Bill Clinton buried their political differences to launch a presidential fund-raising effort on January 3rd, Americans had donated over $163m to charities involved in the tsunami relief effort; Germany's smaller population had given $200m. Such has been the public's generosity that in many countries—Britain being a notable example—governments have found themselves playing catch up, several times increasing their official aid to keep pace with charitable donations. A sort of contest has broken out among governments, as they pledge ever more aid—Germany's is currently promising $674m, Japan's $500m, Australia's $380m (plus the same again in loans), America's $350m and Norway's $182m—as well as relief-workers, soldiers, aircraft, food, medicines and more. Among the relative misers are Arab governments such as Saudi Arabia's ($30m), which have benefited from huge windfalls thanks to higher oil prices in 2004 and ought to want to help their fellow Muslims in Indonesia.

Politicians are also competing with initiatives to help rebuild the battered region after the initial relief effort. Gordon Brown, Britain's chancellor of the exchequer, has sparked a lively debate about the role that debt relief should play in financing the reconstruction. Other ideas will soon emerge following a summit in Jakarta in January 6th, as well as from various parts of the United Nations (UN).

All of which is entirely welcome: an uplifting start to the new year after the old one ended so badly. Even so, the response to the tsunami prompts some big, difficult questions. Will the money be well spent? Is it at the expense of other deserving causes and political priorities? If so, is that justified? Or, to be optimistic, might so much

generosity actually reflect a change in the priorities of rich countries that could benefit all developing countries, not just those hit by the recent disaster?

The case for generosity

What is certain is that the response has already far exceeded that following other humanitarian crises—including some in which the loss of life has exceeded the 150,000 now thought to have been killed, such as Congo's war (perhaps 3m dead), or matched it, such as Bangladesh's cyclone in 1991 (140,000 dead). The aid so far promised to help the 5m or so people who have been directly affected by the tsunami is around $800 a head, well over 20 times the norm in previous international-aid allocations.

Some cynics attribute this unusually generous response from rich countries to the fact that so many tourists from those countries were killed. For some European countries, the tsunami cost more citizens their lives than any natural disaster in decades. But if the money meets genuine needs in the affected countries, who cares what motivates the giving?

A more valid concern is that, as on previous occasions, rich-country governments might fail to honour their promises once the public's attention moves on to other things—or that, if they do pay up, they will do so by diverting money from others in need of aid (see article). Likewise, the private donations may reflect the public changing how it distributes a more-or-less fixed pot of charitable cash, in which case other charities may suffer. Yet, encouragingly, donor governments have so far been at pains to promise that tsunami-related aid will not be at the expense of existing aid budgets. As for private charity, similar worries abounded after the terrorist attacks of September 11th 2001 prompted massive giving to help with the recovery effort; however, on the whole, charities did not suffer the slump in donations that had been feared.

To some extent, the unusually generous response to the tsunami crisis may reflect a widespread, and largely justified, belief in rich countries that their money is more likely to be spent well on relieving natural disasters than on man-made humanitarian crises such as those in Congo and Darfur—or, for that matter, on general development aid to the world's poorest countries. Ever since Live Aid 20 years ago failed to provide a lasting solution to an essentially man-made famine in Ethiopia, there has been a growing “aid fatigue” in many rich countries—except when a strong case can be made that aid will really make a difference in a particular situation. The tsunami relief seems to qualify. Most of the countries hit have governments that, for all their frailties, are functional and even democratic. Unlike the rulers of, say, Sudan, or indeed many of the world's poorest countries, these governments are not a primary cause of the crisis. The internal fighting in Indonesia and Sri Lanka pales beside that in the Congo and Sudan, and seems unlikely to be a significant obstacle to the relief effort.

Beyond the next few weeks and months

Yet although the relief effort seems to be going reasonably well given the enormous difficulties to be overcome, and governments and non-governmental organisations are working well together, some legitimate concerns have been raised about whether the global system for responding to humanitarian aid is as efficient as it could be. In particular, the somewhat ponderous initial response has reinforced the case for an emergency rapid-response capability, consisting of soldiers, equipment, medical staff and others in a number of countries all over the world, doing their normal jobs but earmarked for despatch when a disaster occurs. Moreover, the UN's difficulty last week in offering speedy co-ordination showed that that issue too needs attention.

Then there is the even trickier question of what longer-term development assistance to offer tsunami-affected countries. Debt relief, as proposed by Mr Brown, may not be what these countries need or want in the long run, though a holiday from interest payments would be a quick and easy way to improve their cash flow in the next few months. After all, these countries are not among the poorest in the developing world, and their debt levels are not especially onerous. India has actually declined outside help. One, Myanmar, has the sort of nasty, ineffective government that would anyway prevent it from qualifying for debt relief were it located in Africa.

Ironically, before the tsunami struck, aid and development were already scheduled to dominate this year's international policymaking agenda. Momentum was building for significant changes, including more aid, debt write-offs and, crucially, further trade liberalisation (see article). However, these efforts in 2005 were expected to be focused largely on African countries, not Asian ones, which were mostly thought to be moving beyond needing

such assistance. Indeed, it is the progress made over the past few decades by Asian countries, both in political and economic performance, that provides the strongest grounds for expecting that the money donated by the outside world will be spent well, and that the region will soon be recovering strongly. The aim must be that this likely success should not divert attention from humanitarian and development needs elsewhere, but instead be used to inspire even greater efforts to tackle them too.

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The Palestinians' new leader

A new man, a new chance

Jan 6th 2005
From The Economist print edition

Mahmoud Abbas could do great things, provided he doesn't mean everything he says

AFP

WHEN you think of what might have gone wrong after the death of Yasser Arafat, the Palestinians have cause to congratulate themselves on their handling of the succession. Barring some last-minute upset, the Palestinians will on January 9th elect Mahmoud Abbas, a long-time comrade of Mr Arafat's, to succeed him as president of the Palestinian Authority. Remarkably in the circumstances—parts of the West Bank and Gaza are a war zone, teeming with Israeli soldiers and armed Palestinians—the election campaign has looked free and fair (see article). Mr Abbas was helped by the withdrawal of a popular rival, Marwan Barghouti, who chose not to contest the election from his Israeli prison cell. But this was no fix. Mr Abbas pulled ahead of other candidates because he was the choice of Fatah, the backbone of the Palestine Liberation Organisation, not because other candidates were intimidated.

A smooth succession should be reason for Israel to celebrate too. It frees Ariel Sharon from a trap of his own making. Previous Israeli prime ministers—Yitzhak Rabin, Shimon Peres, Binyamin Netanyahu and Ehud Barak—gritted their teeth and accepted Mr Arafat as an interlocutor. But soon after his own election, as the Palestinian *intifada* deepened, Mr Sharon declared Mr Arafat an incorrigible terrorist with whom Israel would no longer deal. He persuaded George Bush to do the same. Israel and America then discovered that nobody had the authority to talk peace in Mr Arafat's stead. Attempts to reach over Mr Arafat's head by propping up and reaching out to his prime ministers—first Mr Abbas himself and then Ahmed Qurei—came to nothing while the old man still lived. Now at least the Palestinians will once again have an elected president the Americans and Israelis consider kosher.

The advent of Mr Abbas undoubtedly presents an opportunity. Why, now, should Mr Sharon's unilateral plan to evacuate all the Jewish settlements from the Gaza strip later this year have to be unilateral at all? Mr Sharon has always portrayed this plan as a second best—a self-interested Israeli retreat to more defensible lines while the *intifada* still raged. But Mr Abbas has said several times that the present *intifada* against Israel—a horribly bloody one compared with the largely unarmed precursor of the 1980s—was a mistake. If it ended, Israel's Gaza withdrawal could be co-ordinated with the Palestinians and linked to the “road map”, a peace plan that has been

signed by both sides and which is supposed to establish an independent Palestinian state in the West Bank too.

So peace is close at hand? Hardly. The road map could be signed by both sides because it fudges all the wicked issues—borders, Jerusalem and refugees—that sank Bill Clinton's peace effort more than four years ago. Mr Sharon may be a changed man—he has teamed up with Labour to force his Gaza plan through the potentially violent opposition of the settlers—but he has not changed enough to repeat the deal (more than 90% of the West Bank, a share of Jerusalem and all of Gaza) Mr Barak ended up offering in 2000. And if Mr Arafat himself could not accept that offer, what chance has the untested Mr Abbas of making Palestinians settle for less?

Give him strength

None, for the time being. For in spite of the smoothness of the succession, Mr Abbas is weak. He will preside over a Palestinian Authority that has been eviscerated both by four years of Israeli-Palestinian warfare and by a decade of neglect under Mr Arafat. The Islamic Resistance Movement, Hamas, is a law unto itself, albeit a disciplined one, as are some of the militias on the fringes of the Fatah movement. And though some Palestinians are ready to suspend the *intifada* to give peace a chance, others have warned Mr Abbas against the slightest hint of surrender. Until he has built up his personal authority, the Palestinians' new president will find it hard enough to enforce a ceasefire, let alone negotiate a final peace.

This suggests that if Mr Sharon and Mr Bush want to seize the post-Arafat opportunity, they should help Mr Abbas to burnish his domestic standing. This will take time—and care. The more kosher Mr Abbas appears in Israel's eyes, the less halal he will appear to his own people. The key is not to smother him in kisses, but to help him prove that talking can achieve more than the *intifada* did. That will be hard, given how many Palestinians believe that it is the *intifada* that is forcing Israel out of Gaza. In return, Mr Abbas must begin the task Mr Arafat shirked of preparing his people for compromise. During his election campaign, Mr Abbas said some foolish things—referring to Israel as “the Zionist enemy”, equivocating on terrorism and suggesting that the refugees of 1948 would one day return to their vanished homes in Israel proper. Presumably, this was mere electioneering. If he meant it all, you can forget about peace for another decade.

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Trade talks

Delivering on Doha's promise

Jan 6th 2005
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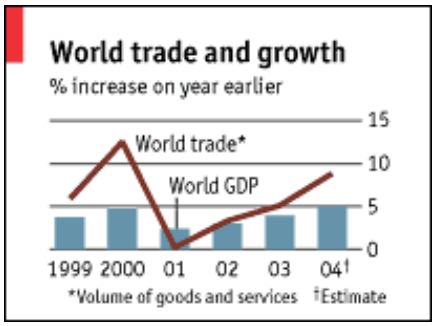
2005 will be a vital year for free-trade talks



THE Doha trade round was supposed to be finished by now. When the world's trade ministers launched the global trade talks in November 2001, they promised to conclude them three years later. By the end of 2004, there was to be an ambitious agreement on freeing trade in farm goods and services, with the emphasis on helping the poorest countries. Three years on, that deal is nowhere in sight.

The delay is unfortunate, but unsurprising. No global trade round has stuck to its original schedule—the Uruguay round launched in 1986 took almost eight years. The danger is that the Doha round is not just delayed, but diluted in its ambition. There is a shocking disconnect between the high hopes that launched the round and the grubby reality of the talks so far.

In farm trade, for instance, poor countries urgently need better access to rich-country markets for their farm products. Yet, so far, this is where the Doha talks have achieved the least (there has been more progress on cutting domestic support and eliminating export subsidies). Poor countries can reap large economic benefits from opening their markets to each other. Yet discussions about how to reduce barriers for industrial goods—which are far higher in poor countries than rich ones—are at an impasse, thanks largely to the intransigence of big emerging economies, such as India and Brazil. These countries are loth to make “concessions” on industrial tariffs until they see more progress in farm trade. Rich countries are loth to do more on farm trade until they see progress in talks on industrial goods and services.

For the Doha round to succeed, this mercantilist mindset needs to change, and quickly. Although there is no formal date for concluding the negotiations, 2006 is a widely agreed deadline since George Bush's fast-track negotiating authority runs out in 2007. Trade ministers will therefore need to have at least a skeleton agreement in agriculture, industrial goods and services by December 2005 when they gather in Hong Kong for the World Trade Organisation's biannual meeting.

America AWOL?

Unfortunately, there are several reasons to fear that the Doha negotiators will not get there. Breaking the current impasse will require committed political leadership, and that may be in short supply this year. America, the WTO's most important member, will be distracted (see article): Mr Bush has barely mentioned trade since his re-election. The administration faces a tough battle over the Central America Free Trade Agreement, which has been signed, but not yet ratified, by Congress. Robert Zoellick, Mr Bush's respected trade representative, is likely to move to the State Department, leaving a hiatus.

Another danger comes from uncertainty about the leadership of the WTO itself. Supachai Panitchpakdi, a Thai who

is the organisation's current boss, ends his term in August. Four candidates have been nominated to replace him. The world's trade ministers must decide on one of them—by consensus and by May 31st. Previous such races have been rancorous affairs, paralysing and poisoning the atmosphere. For the sake of the Doha round, the WTO needs to decide quickly on a strong leader, someone who can prod the world's trade ministers to live up to the ambitions they promised at Doha. With renewed political commitment from both rich and poor countries, the Doha round could still achieve its goals. The world's poorest deserve no less, yet politicians could once again fail them.

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Good news from Sudan and Senegal; disappointment in Uganda

AP

TRUCES are common in Africa, and often signal no more than that the rainy season has made the roads impassable, or that both sides need a break to buy more bullets. So no one paid much attention when, last week, three African countries announced strides towards peace. On December 31st, the government of Sudan signed a “permanent ceasefire” with rebels from the south of the country. The previous day, separatists in Senegal agreed to end a 22-year insurgency. And the same week, Uganda's government held its first direct talks with the apocalyptic rebels of the Lord's Resistance Army, who have terrorised northern Uganda for nearly two decades.

It is wise to be sceptical about such announcements. Sure enough, in Uganda, the shooting started again within days. Nonetheless, it would be wrong to dismiss the recent flurry of peacemaking in Africa as a sham. The deals in Sudan and Senegal are likely to stick (see article), and they are part of a wider, if fragile, trend.

In fits and starts, Africa is getting more peaceful. Ruinous civil wars in Angola, Liberia and Sierra Leone are over, while Madagascar's fizzled before it could really start blazing. Ethiopia and Eritrea have ended their senseless border conflict. In Burundi last week, all but one of the country's various rebel groups were formally merged with the national army.

Even the continent's two biggest war zones, Sudan and the Democratic Republic of Congo, are looking calmer in parts. Congo's monstrous conflict is more or less over, although the east of the country is still lawless and its aggressive neighbour, Rwanda, still attacks from time to time. Sudan is equally confusing, because it is the scene of two separate wars. The bigger one, between north and south, which has cost 2m lives since 1983, is almost over. Ceasefires have been honoured, and the details of how to set up a government of national unity that includes the southern rebels have practically all been agreed. This bright picture is begrimed, however, by the smaller but

still awful conflict in Darfur, where an estimated 70,000 people have been killed and the government has sponsored breathtaking atrocities.

The trend towards peace in Africa is uneven, as the outbreak of fresh wars in Darfur (in 2003) and Côte d'Ivoire (in 2002) shows. But it does seem to be real, and wherever peace has taken hold, the lives of millions have grown less fearful and, often, less poor. Who deserves the credit?

Deterring the soldiers

Wars end for a variety of reasons. Sometimes one side wins, as in Angola. Sometimes both sides are exhausted, enabling skilful mediators to coax their leaders into negotiations. Thabo Mbeki, the South African president, has worked frenetically to broker such talks in several countries, with some success. Outside pressure can help—America's more robust approach to violent Islamists since September 11th 2001 was crucial in persuading Sudan's Islamist government to make peace with its southern rebels, though it has yet to make much difference in Darfur. And it goes without saying that domestic leadership matters. Senegal's president made peace a priority, and seems to have secured it. Côte d'Ivoire's president didn't, and his country is sliding towards catastrophe.

Making peace is hard enough, but tackling the underlying causes of war is even harder. In Africa, the most important of these is the continent's crisis of governance. Predatory, incompetent states command little loyalty, and often cannot control their own territory. Congo's war, for example, began because neighbouring countries invaded, but they were able to invade only because the Congolese state had ceased to function, leaving a vacuum. When soldiers are never paid, they fight to loot. When there are no other jobs, young men may feel that joining a rebel army is the least bad career option.

Not only are ill-governed countries more prone to war, but war tends to destroy much of what is left of the state. For example, according to the International Rescue Committee, a campaigning charity, Congo's war, despite being more or less over, is still killing 1,000 people a day. Few are shot or hacked to death; 98% of this alarming figure is an estimate for the number who have died of hunger or disease, over and above the number who would have died anyway had there not been a war. This is the roughest of approximations, but it gives a clue as to the woeful effect the fighting has had on Congo's already woeful health-care system, infrastructure and economy.

The main responsibility for rebuilding Africa's failed states rests with the people who live there. The trouble is, the best-educated of them tend to emigrate. Foreign peacekeepers are often prepared to stay long enough for elections to be held, but not long enough to make sure that newly-elected governments survive. Occasionally, outsiders can preserve peace on the cheap. The mere promise that British troops would defend the young government of Sierra Leone, for example, discourages rebels from attacking it. But what is practical in a small coastal state such as Sierra Leone would be out of the question in say, Sudan. It will be a long time before Africa is truly stable, but at least the continent is moving in the right direction.

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British drink-licensing laws

Drunk with power

Jan 6th 2005
From The Economist print edition

Getting alcohol licensing right means giving back power to local councils

Alamy

AT THE end of last year, the British government banned hunting, announced its intention to ban smoking in public places and raised the possibility of restrictions on companies selling unhealthy food. Next month, it will move toward letting pubs serve alcohol all day and all night (see article). Yet those who smoke, hunt and eat unhealthy food do little harm to anybody except themselves, while alcohol is implicated in 40% of violent crime.

What explains this curious conjunction of policies? Not perversity, stupidity nor randomly incoherent policy-making. It is, more interestingly, a consequence of the way power is distributed in Britain.

In the 1990s, local councils were scratching around for ideas about to how to revive Britain's inner cities. Part of the problem was that the cities were dead after their few remaining high-street shops had shut in the evening. Bringing night-life back, it was felt, would bring back young people, and the cheerful social and economic activity they would attract would revive depressed urban areas. The “24-hour city” thus became the motto of every forward-thinking local authority.

For councils to fulfil their plans, Britain's antiquated drinking laws needed to be liberalised. That has been happening, in stages. The liberalisation culminates in 24-hour drinking licences, for which applications will be invited from next month. Britain's drink-licensing regime will, then, be among the most liberal in the rich world. The punitively high taxes and fiercely restrictive drinking laws in Scandinavian countries are well known; but even in southern Europe, where people take their drink more regularly and therefore less damagingly, apparently liberal regimes that allow bars to stay open all day long are hedged about with numerous subtle restrictions controlling the quality and quantity of drinking.

As an urban redevelopment policy, the liberalisation has been tremendously successful. Cities which once relied on a few desultory pubs for entertainment now have centres thumping with activity from early evening all through the

night. People trudging into work in the morning commonly pass pale-faced clubbers on their way home. London's night-life is one of the main reasons why it is the world's hottest spot for globetrotting youngsters. Thanks to the liveliness of the inner cities, people have come back to live in them, and the spiral of decline has been reversed.

As a law-and-order policy, though, licensing liberalisation has been less of a triumph. There was a theory, when it was under discussion, that lengthening drinking hours would allow drinkers to spread their consumption over longer periods of time. As a result, it was said, British drinkers would abandon the vodka-swilling habits of northern Europeans who drank till they were sick, or brained someone, or both, and emulate civilised wine-sipping southerners. Sadly, Britons seem to have stuck to bingeing and have taken the opportunity to do more of it. That is probably why, when crime as a whole has fallen since the late 1990s, violent crime has gone up; and it is certainly why the police have joined the doctors in opposing the 24-hour licences.

But why did nobody notice? Why have the government and local authorities combined to pursue a policy whose disadvantages are widely considered to outweigh its advantages? Partly, presumably, because of political and bureaucratic inertia. Too many politicians and civil servants have invested too much time and credibility in the idea to admit that they may have been wrong.

But there's another reason, too, which concerns the way power is distributed in Britain. Over the past hundred years, central government's thirst for power has weakened the local authorities. As a result, policing, which should be a local issue, is largely paid for by central government. So councils, who are largely responsible for licensing, do not pay for the negative consequences of liberalisation.

Make them pay

When one lot of people's behaviour inconveniences another, the obvious solution is to make the first lot pay. So the sensible policy would be to give local authorities both the power to raise the price of licences to cover the social costs of licensed premises and the responsibility for paying for policing. That might help limit the spread of vomit over Britain's pavements. And it would also help reverse a long, slow shift in the distribution of power in Britain that has done huge, though little-noticed, damage.

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Frequent-flyer miles

In terminal decline?

Jan 6th 2005
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The dollar has already been toppled as the world's leading currency

IN DECEMBER, we warned that the dollar's role as the world's main currency was under threat if America continued in its profligate ways. Yet the dollar has been dethroned even sooner than we expected. It has been superseded not by the euro, nor by the yen or yuan, but by another increasingly popular global currency: frequent-flyer miles. Calculations by *The Economist* suggest that the total stock of unredeemed frequent-flyer miles is now worth more than all the dollar bills in circulation around the globe.

By the end of 2004 almost 14 trillion frequent-flyer miles had, by our estimate (updating figures from webflyer.com), been accumulated worldwide. But what is a mile worth? Airlines sell them to credit-card firms at an average of just under 2 cents a mile; their value when used to buy a ticket or to upgrade to business class can be anywhere between 1 cent and over 10 cents per mile. Using the mid-point of this range means that the global stock of frequent-flyer miles is now worth over $700 billion, more than all the dollar notes and coins at large. Pedants will complain that we have ignored dollars sitting in bank accounts, but after a couple of free in-flight gin-and-tonics, most frequent-flyers care little about the difference between M0 (the narrowest measure of the supply of miles, or rather, money) and M3.

Frequent-flyer miles have long been a form of “money”, used as a means of exchange and a store of value. Mileage junkies check their statements every month; divorce settlements often place a value on frequent-flyer miles; and corporate high-flyers look forward to spending their huge balances in retirement. It has never been so easy to earn miles. Airlines offer special triple-mile bonuses at certain times of year—such as, in the northern hemisphere, January and February—and half of all miles are now earned not in the air, but on the ground, notably on credit-card payments. But as a result, airlines have been printing too much of their currency. The number of miles outstanding has risen by almost 20% a year over the past decade. At current rates of redemption, even if no more miles were issued, it would take 25 years to use up the stock. In 2002 *The Economist* predicted that such

inflationary policies would inevitably lead to a devaluation of frequent-flyer miles (see article). This has indeed started to happen: several airlines have increased the number of miles required for a free flight, or made them harder to use at the time you want to travel.

High-powered money

Making it harder to use frequent-flyer miles today merely raises airlines' future financial liabilities from unredeemed miles. Were it to exist, the IMF (the International Mileage Fund) would by now repeatedly have warned that these growing external liabilities are unsustainable in exactly the same way that America cannot keep borrowing from the rest of the world. If the new global currency was left entirely to the market, the value of frequent-flyer miles would plummet in order to match the demand for and supply of free flights—just as the dollar would be weaker if Asian central banks stopped intervening. Frequent-flyer miles are no better as a reserve currency than the greenback.

But this misses a crucial point. Central banks and finance ministries have a far greater interest in defending the value of frequent-flyer miles than in propping up the dollar. After all, their officials are continually criss-crossing the globe to attend meetings, racking up miles in their personal accounts. If their free first-class flight to the Caribbean is at risk, they are likely to fight to the death to stop a devaluation. Against such competition, the dollar does not stand a chance.

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Letters

Jan 6th 2005
From The Economist print edition

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Religious rights

SIR – It is incorrect to point at the use of the word "Creator" in the Declaration of Independence and say that "the place of religion in the public sphere has never been fixed" ("A hot line to heaven", December 18th). America's founders attempted to establish a firm divide between religion and government. Evidence comes from Article 11 of the 1797 Tripoli treaty, which reads "the government of the United States of America is not in any sense founded on the Christian religion." When you consider that this was included in the treaty to dispel fears of a war arising from religious differences between America and Muslim nations, the actions and opinions of George Bush and his religious, war-hawking, hyper-patriotic supporters seem eerily ironic.

Evan Engstrom
Milwaukee, Wisconsin

SIR – Your attempt to show that Mr Bush is not different from his predecessors in expressing his religious beliefs seems a little too far fetched. You should have examined what he has done more than what he has said. Keeping suspect prisoners indefinitely without hope of fair trials at Guantánamo Bay is one example of his action where he has been guided more by religious vengeance than by a sense of secular justice.

Divakar Masilamani
Morristown, New Jersey

SIR – Mr Bush is God's man not because God has chosen him, but because he has chosen to follow God. To some, any religious expression is hateful, but the real gulf between evangelicals and the irreligious is the belief in good and evil. The religion-hating left views use of the moral categories of good and evil as a betrayal of one's backwardness. In their minds, all that exists are power struggles.

Roger McKinney
Tulsa, Oklahoma

SIR – Your hair-splitting analysis of Mr Bush's words misses the point. As Americans who believe in reason might say, if Mr Bush isn't with us in our struggle against theocracy, he's with them.

Hastings Hart
Berkeley, California

The end is not nigh

SIR – It's not just religion that inspires apocalyptic thinking ("A brief history", December 18th). Every disruptive

technology gives rise to “endists”, whose response is driven by dread of change. The industrial revolution gave us the Reverend Thomas Malthus, that most fearful of latter-day apocalyptics. His most recent descendant is Bill Joy, late of Sun Microsystems, who contemplated the millions of dollars he had made in computer technology and cried out in agony, “Oh my God, what have I done?” Endists can serve a useful purpose. Their fearful protests may help us to consider the consequences before we dash headlong into whatever “brave new worlds” technology enables us to create.

Arnold Brown
New York

SIR – Your conclusion that apocalyptic beliefs are a force for improvement in the world is counterintuitive. The problem with evangelicals is not that they fear the hour of God's possible return and thus try to improve the world around them. It is that they actively try to fulfil their own apocalyptic prophecies in the hope of speeding up Christ's return. Who cares about deforestation and melting polar ice caps, when it means God is just around the corner? To quote James Watt, President Reagan's interior secretary, “after the last tree is felled, Christ will come back.” Maybe that's why the green lobby did not fit well with your thesis. They are actually trying to avoid the Earth's demise, instead of selling out our future in the hope that God will one day sort things out.

Martin Caver
Nîmes, France

SIR – Although interpretations may vary, many religions agree that the world will reach an end. Yet you mock them all. Do you think that mankind will last forever? This particular “nutty, born-again Texan” has only one reply: That sounds a bit crazy to me.

Olivia Webb
Sunnyvale, Texas

Natural born leaders

SIR – You are right to support the repeal of the constitutional requirement that American presidents are native born (“Let Arnold run”, December 18th). But there is an even more basic and obvious reason to fix this. Having two classes of citizenship, the present constitution notwithstanding, seems altogether unAmerican.

Alan Gottesman
New York

SIR – You say that Aubrey Herbert refused the Albanian crown when it was offered and “they ended up with several coves called Zog.” There was just one King Zog, though he was styled, optimistically, Zog I and reigned through the 1920s and 1930s, dying in exile in 1961.

John Cowell
Bishop Auckland, County Durham

The feel-good factor

SIR – According to critical theory, *The Economist* engages in a narrative designed to persuade its audience of the virtues of capitalism (“Capitalist, sexist pigs” December 18th). A consistent finding of social-psychological research is that people tend to read, watch and listen to things that reinforce their political predispositions. *The Economist* does just that for its affluent readers as they head out to work, confirming that free markets are more efficient, and, as an added bonus, telling them their profession helps the plight of the world's poor. That way, they believe their profession not only makes themselves better off but is saving the world's downtrodden from famine, disease and even war. That's a feel-good publication.

Dave Townsend
Washington, DC

SIR – I am disappointed with the revelation in a study you cite that from 1982 to 2000, *The Economist* had more

photographs of frontal nudity than all your peers combined. As a recent subscriber, I feel short-changed.

Oliver Benn
San Francisco

Do not pass Go

SIR – Though you rightly point out that the most aesthetically pleasing and costly Go sets cost toward $150,000, reasonable wooden boards and glass stones can be bought from $60, thus making Go a very accessible game ("The game to beat all games", December 18th). The simple rules means that young children can play. Furthermore, the structure of Go allows a level playing field for games between players of different strengths by the weaker (black) player being given a number of pre-placed (handicap) stones before the stronger (white) player makes the first placement. This reflects the sense of balance found in the origins of the game's oriental philosophy.

Stephen Bashforth
Leicester

American graffiti

SIR – Your article did not mention the graffito in the lavatory of Brooklyn Polytechnic Institute that my husband reported about in 1960 ("The writing on the wall", December 18th). It went: "There is no gravity. The Earth sucks."

Evelyn Berezin
New York

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The White House and Congress

Trouble and strife

Jan 6th 2005 | WASHINGTON, DC
From The Economist print edition

The new Congress could be one of the most interesting on record. That's “interesting” as in the Chinese curse

THE 109th Congress began work this week with a bang. The Senate was due to hold the first confirmation hearings of the new administration, grilling Alberto Gonzales, George Bush's nominee for attorney-general, about his views about the quaintness of the Geneva conventions and the infamous torture memo he was sent. Both houses agreed to finance Mr Bush's promised $350m for tsunami victims—and maybe add more.

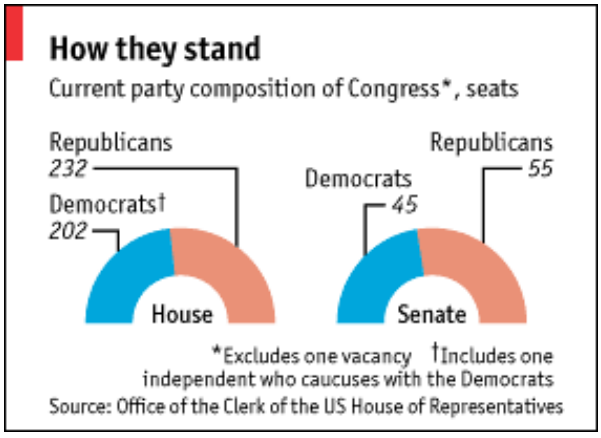
Congressional Republicans chose not to loosen in-house ethics rules that would have protected their majority leader, Tom DeLay from having to resign if he were to be indicted. This act of discretion briefly dampened worries about the dangers of hubris in a second term. But the Republicans undid the good work by voting to limit ways in which House ethics investigations can be launched. Meanwhile, the administration was beavering away on its proposed 2006 budget, the state-of-the-union address, a big speech on Social Security and the president's fence-mending trip to Europe—all of which are due to take place in the next two months.

In Mr Bush's first term, relations between Congress and the White House were unusually good. This was not just because Republicans were in charge at both ends of Pennsylvania Avenue (you need only think of the first two years of Bill Clinton or Jimmy Carter to realise that one-party government is no recipe for concord). Rather, it was because there was an implicit political bargain: Republicans backed Mr Bush's agenda to the hilt, reckoning his electoral coat-tails would help them get re-elected too. If Mr Bush sometimes rode roughshod over Congress, well, the bargain was still a good one.

The composition of Congress has barely altered: the Republicans increased their majority in the House by three seats and by four in the Senate. The Republican leadership remains the same (though the Democrats lost their Senate leader, Tom Daschle, in November). But for one or two more budget hawks and more social conservatives, there is little in the make-up of the new Congress that should make it harder to control than the previous one.

But the discipline imposed by Mr Bush's re-election drive has gone, to be replaced by worries of losses in the 2006 mid-term elections. Congressmen fret that a president with one eye on his legacy will sacrifice his colleagues' short-term interests for his long-term aims. The first stirrings of discontent are already being heard from Republican congressmen. In Mr Bush's second term they are determined to grab a bigger role in shaping legislation than they played during the rubber-stamping first term.

So the glue that held the two halves of Republican government together has somewhat weakened. On top of that, Mr Bush has set out one of the most ambitious second-term agendas of any president for decades—perhaps since Franklin Roosevelt. By laying out grandiose, nation-changing policies, he hopes to rally what might otherwise be a fractious Congress and avoid the passivity that has led many second-term presidents into danger. But in trying to avoid one threat, Mr Bush is risking its opposite: overreach, especially because his most important proposals could unify the Democrats and strain parts of his Republican alliance.



Of these, the most ambitious is his proposal to reform Social Security, America's state pension system. On the campaign trail, Mr Bush said he wanted to permit younger workers to divert part of their payroll taxes, which now go to the state-run Social Security trust fund, into private accounts. The details of the proposal have yet to be released (or perhaps even worked out). But three things seem certain:

• It will be hugely expensive. Depending on how much is diverted, the transition costs are likely to be 1-1.5% of GDP a year for five years. That comes at a time when the budget deficit is already almost 4% of GDP and the dollar is falling as a result.

• Mr Bush will have to deal both with opposition and competing proposals from his own party. Congressman Tom Davis from Virginia says that around two dozen Republicans do not want Mr Bush to tackle the “third rail” of politics at all. Senator Lindsey Graham of South Carolina does want to grab it, but would help pay for reform by increasing the amount of income subject to payroll tax—a tax rise Mr Bush has rejected.

• Any proposal will cause a partisan battle in Congress and a wider fight in the country. In the past, some centrist Democrats have been receptive to reforming Social Security. But their most vocal proponent, John Breaux, retired from the Senate last year and now the party seems to have dug in its heels in opposition. Perhaps more important, so has the AARP, previously the American Association of Retired Persons. Since the AARP's support was vital to the passage of the Medicare reform last year, its decision is potentially a serious setback for the White House.

Hold your horses

As with Social Security, tax reform is an impenetrable thicket both technically and politically. The aim is laudable: to simplify the code and shift the burden of tax away from investment income towards consumption. But unlike

with the first-term tax cuts, which left current voters with a tidy sum and future generations to pay for it, tax reform (assuming it is revenue neutral, as Mr Bush has promised) is a zero-sum game. If somebody's taxes go down in the name of reform, someone else's must go up. Persuading the Republican majority to accept any sort of tax rise could be hard. So the White House is not rushing into this either. The president is to appoint a special task force soon, which is supposed to come up with recommendations later in the year, setting the stage for congressional action next year—possibly after the mid-term elections, possibly not even then.

While Social Security and tax reform smoulder away in the background, the issue that is likely to explode immediately is the appointment of judges. The conflict is not over who should be appointed to the bench, but how far Republicans should go in order to get their way.

The Senate must confirm judges nominated to the federal bench. During 2004, Democrats used filibusters to block votes on ten of Mr Bush's more conservative nominees—that is, used a parliamentary technique that requires a super-majority of 60 to win a vote. The Republicans did not gain enough in the Senate to reach that level, so their party's leader there, Bill Frist, has threatened to hold a vote declaring filibusters unconstitutional, which (oddly) would require only a simple majority. That would then enable Mr Bush to ram his choices through the Senate (he blithely renominated the judges whom Democrats had filibustered).

But this is not called “the nuclear option” for nothing. The Senate has ponderous and peculiar rules specifically to rein in hasty majoritarianism—and several Republican as well as Democratic senators are reluctant to see these rules scrapped. New Hampshire's John Sununu has come out against the idea, and senators may yet face the stark choice between Mr Bush's nominees and their own traditions.

None of this means Mr Bush cannot get anything done. The increase in his party's majority will probably allow him, for example, to get his energy bill through the Senate (complete with drilling in the Arctic National Wildlife Refuge). But the real significance of the disputes lies in the nature of the likely conflict between the White House and Congress.

Many second-term presidents have clashed with Congress, usually over scandals (the Lewinsky affair, Iran-contra, Watergate). By tackling such fundamental issues as the structure of America's biggest entitlement programme, Mr Bush has raised the stakes in his second term, and the disputes with Congress could be more than usually consequential.

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America and the United Nations

Kofi creamed

Jan 6th 2005
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The secretary-general is under increasing pressure to quit

Get article background

CAN Kofi Annan survive? The secretary-general of the United Nations has just finished what he himself admits was an *annus horribilis* for his organisation. Now an American-led campaign to unseat him is probably closer to its goal than ever.

The UN has never been popular with American conservatives on a range of issues, from Israel to Cuba to the sheer expense of funding an organisation that (from their point of view) seems to be bent on shackling American power and spreading socialism. In the 1990s, a Republican-dominated Congress withheld funding. Mr Annan, who was installed at America's request in 1997, has feuded with the Bush administration over the Iraq war (which the secretary-general described as illegal shortly before the presidential election) and over the International Criminal Court (or “Kofi Annan's kangaroo court” as Congressman Tom DeLay calls it). But discontent with the UN patently goes beyond the right: Democrats are testy too.

Mr Annan's fate rests on the initial findings of a report, due out by the end of this month, into the UN's much criticised $64 billion oil-for-food programme in Iraq. Although Mr Annan is unlikely to be directly implicated in any personal corruption, some of his staff could well be. As the overall boss, he could be culpable of negligence at least.

Much will depend on how the three-man committee led by Paul Volcker, a former chairman of the Federal Reserve, presents its findings. The committee is due to consider this weekend a draft report into the UN secretariat's role in the scam. The draft was drawn up by a team of more than 60 investigators, accountants and researchers, headed by Reid Morden, a former director of the Canadian Security Intelligence Service.

It is already clear that the report will not be the whitewash that many conservatives have predicted. But it will come with two caveats. First, it will be only part of the picture; a second report looking at the role of the Security Council, which had overall responsibility for the oil-for-food programme, is not due until the summer. And, second, the allegations against the man at the heart of the scandal, Benon Sevan, the former director of the office that ran the programme (who has vigorously denied any wrongdoing), have been deemed so complex that a detailed examination of his case will await the final report.

Thank you, son

More troubling for Mr Annan could be his son's links to Cotecna, a Swiss-based company that monitored imports of humanitarian aid into Iraq. Kojo Annan was said at first to have worked for the company in Africa only until the beginning of December 1998, and to have had nothing to do with the award of the $4.8m oil-for-food contract to Cotecna one month later. Now it has emerged that in 1998 he went to UN meetings in New York and South Africa;

and he continued to receive $30,000 a year from Cotecna for another five years in return for an agreement not to work as a competitor. Mr Annan has expressed his “disappointment and surprise” that his son had not disclosed this.

Meanwhile, the list of complaints against the UN gets longer by the day. There are grumbles from America about the UN's alleged mishandling of relief for the tsunami disaster. Wrangles are also going on about the UN's role in Darfur, charges of rape and sexual abuse of children by UN peacekeepers in Congo and a dispute over the UN's unwillingness to provide help for the Iraqi special tribunal set up to try the country's former dictator, Saddam Hussein.

Last month, the long-simmering discontent was brought to the boil when Senator Norm Coleman, who heads one of the many congressional committees sniffing around the oil-for-food scandal, called for Mr Annan's resignation. This Minnesota Republican argued that as long as Mr Annan remained in charge, the world would never be able to learn the full extent of the kickbacks that took place.

For a time, it looked as if the Bush administration would give the campaign to unseat Mr Annan its tacit support too. But it appears to have decided to back off. A weak secretary-general at the head of an enfeebled UN might, after all, serve Mr Bush's interests better than a tougher one. After a wobble, John Danforth, the outgoing American ambassador to the UN, was instructed to throw the administration's weight behind Mr Annan. Some 130 countries, including all the members of the EU, had already announced their full support.

But not only Republicans are worried about his performance. This week, the *New York Times* revealed that a secret meeting was held last month in the New York flat of Richard Holbrooke, America's ambassador to the UN under President Bill Clinton, between Mr Annan and a group of foreign-policy types who, in Mr Holbrooke's words, “care deeply about the UN and believe that it cannot succeed if it's in open dispute and constant friction with its foundation nation, host nation and largest contributor nation”.

Mr Annan has been taking steps to repair relations with Washington. He has already had what UN officials describe as an “encouraging” meeting with Condoleezza Rice, the incoming secretary of state. This week, he announced that Mark Malloch Brown, the media-savvy head of the UN Development Programme (and a former *Economist* journalist), is to take over as his chief of staff from January 19th in place of Iqbal Riza, who retires at the age of 70. But he will need to draw on all Mr Malloch Brown's presentational skills if he is to mount an effective defence to the Volcker report.

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The Catholic Church on trial

The Orange approach

Jan 6th 2005 | LOS ANGELES
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A record settlement for sex-abuse victims that may set the tone for other deals

Get article background

THE sins of the Roman Catholic Church—proven or not—can be costly. This week the diocese of Orange, south of Los Angeles, agreed to pay $100m to some 90 alleged victims of sexual abuse by priests and other church people. This comfortably exceeds the $85m paid by the archdiocese of Boston in September 2003 to settle accusations by 552 litigants. In addition, confidential personnel files will be made public. While the diocese admits no legal liability, Bishop Tod Brown said of the agreement: “We have done this in the larger hope of reconciliation and healing. We hope that our actions can restore the trust that many have lost in the leaders of the church.”

Well, perhaps. One repercussion of the Orange deal is to increase the pressure on the archdiocese of Los Angeles to settle claims by another 544 alleged victims of sexual abuse. So far, however, Cardinal Roger Mahony has refused to open up the church's files. Indeed, his lawyers are appealing against a court order that the Los Angeles archdiocese release the confidential files of two priests to a grand jury currently investigating claims of sexual abuse. Adding controversy to the issue is Cardinal Mahony's admission that in the 1980s, when he was bishop of Stockton, he had simply transferred a priest suspected—and later convicted—of molesting minors to a rural parish (by contrast, he had sacked two priests whose guilt seemed clear).

Cardinal Mahony's uncompromising stance is winning him few friends, but it does have a certain legal and financial logic. So far sexual-abuse scandals have cost the Roman Catholic Church in America nearly $900m in compensation and counselling. If documents were released showing the church to have been negligent, the risk is that juries might award damages large enough to cripple the church (last year the Catholic dioceses of Spokane, Portland and Tucson all declared bankruptcy).

On the other hand, Bishop Brown's more conciliatory approach may yet prove a model for other dioceses. Although the Orange diocese will have to pay roughly half the settlement (the rest will be met by its insurers), the agreement specifically protects the church and its insurers from jury trials. Moreover, the plaintiffs will finally get some retribution for their priests' unpriestly behaviour without having to endure a protracted court process. For many Catholics, ending the sex-abuse nightmare quickly and receiving a proper apology counts for far more than the dollars Cardinal Mahony may be saving.

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Arnold Schwarzenegger

On the march

Jan 6th 2005 | LOS ANGELES
From The Economist print edition

Left. Right. Left. Right. Right. Right. Good luck to him

Get article background

Reuters

All the state's a stage

“IF WE here in this chamber don't work together to reform the government, the people will rise up and reform it themselves. And I will join them. And I will fight with them.” In other words, if California's lawmakers refuse to toe his line, Arnold Schwarzenegger will put his ideas directly to the voters in a special election this summer. No wonder one Democratic state senator called the Republican governor's state-of-the-state address on January 5th “a declaration of war”.

In theory, “war” in the nation's most populous state is not inevitable. Don Perata, the leader of the Senate's Democratic majority, described Mr Schwarzenegger's 30-minute speech as “wonderful”, adding that the governor was providing just what the state needed: “bold leadership”. Fabian Núñez, the Democratic Speaker in the Assembly, talked of a commitment to find “common-ground solutions”.

But can they be serious? The governor intends to cap state spending so that it cannot grow faster than revenues; new state employees will have a pension scheme based not on defined benefits but on defined contributions; teachers' pay will be “tied to merit, not tenure”; an independent panel of retired judges, not the lawmakers themselves, will in future draw the state's constituency boundaries; and some 100 state boards and commissions will be abolished or reformed, eliminating some 1,000 political appointments in the process. Virtually all of this will harm Democratic causes and interests.

Take, for example, the budget process. Mr Schwarzenegger, who has until January 10th to submit his budget for the year beginning in July, complains: “We don't have a revenue problem. We have a spending problem.” With the state's structural deficit running at around $8 billion a year, that is code for cutting Democrat-backed welfare and social programmes.

Yet the governor has a point. Various past ballot initiatives, such as Proposition 98, which mandates that a minimum of 40% of the general fund be spent on primary and secondary schooling, have placed some 70% of the general fund (which represents four-fifths of the total state budget) beyond the lawmakers' discretion. The greater the revenue, therefore, the greater the spending—and the greater the difficulty in closing the deficit. Making everything worse is the need for a two-thirds majority before a budget can be approved. Raising taxes, says Mr Schwarzenegger, “would only further drive up spending.”

The governor has a point, too, when he criticises California's school system, from which 30% of high-school students fail to graduate. “We must”, said the governor, “financially reward good teachers and expel those who are not.” That will enrage the pro-Democratic teachers' unions. Nor will the public-sector unions be impressed by the governor's proposal for pension reform—even though the state's pension obligations have risen from $160m in

2000 to $2.6 billion this year.

In the end, however, Mr Schwarzenegger's most important task could be to reform redistricting. Last November not a single one of the 153 seats up for election changed parties—thanks to gerrymandering. This means the parties have no incentive to select candidates moderate enough to appeal across party lines.

Turkeys do not vote for Thanksgiving, so the lawmakers are reluctant to change the system. Past ballot initiatives to take redistricting out of the self-interested hands of the politicians have failed to enthuse the voters. But Mr Schwarzenegger, who has already called a special session of the legislature, is a force of nature. “Political courage”, he told the lawmakers, “is not political suicide. Ignore the lobbyists. Ignore the politics. Trust the people.”

All this sounds very good. But it is interesting how much the governor's pitch—from eschewing tax rises to eliminating state boards—was aimed to gain Republican, not Democratic, applause. Perhaps his eye is not just on re-election in 2006 but on gaining conservative support beyond his state—should that troublesome ban on foreign-born citizens becoming president ever happen to be changed.

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Tort reform

It's a Mad, Mad world

Jan 6th 2005 | CHICAGO
From The Economist print edition

If you have a damages claim to file, take it to southern Illinois

THIS week George Bush visited Madison County in southern Illinois to call for reform of America's tort system. Legal damages, the president argued, have become too high. Awards are out of all proportion to the harm inflicted, and are hurting the economy. Mr Bush's speech was duly applauded by insurers, doctors and manufacturers, together with the Republicans who enjoy their political donations; it was denounced by trial lawyers, together with the Democrats they finance still more generously.

The president's plan focuses on three things: limiting the amount of money that victims of medical malpractice can win for “non-economic” damages such as pain and suffering (he made his Madison speech surrounded by wounded-looking doctors); restricting the use of class-action suits (where large groups of people are pulled together by lawyers to sue companies); and curbing lawsuits against asbestos firms.

In the country of Erin Brockovich and Ally McBeal, getting tort reform through Congress will be tough, but it is hard to think of a better place for Mr Bush to make his case. Madison County has just been named the worst “judicial hellhole” in America for 2004, hanging on to the title the American Tort Reform Association (ATRA) gave it in 2003. And the rot seems to be contagious: neighbouring St Clair County finished second in 2004.

What constitutes a judicial hellhole? In ATRA's view, it is a place where judges “systematically apply laws and court procedures in an unfair and unbalanced manner, generally against defendants”. It has thus become a prime beneficiary of “forum shopping” by trial lawyers. More asbestos cases have been filed in Madison County than anywhere else in the country. It has also been a magnet for tobacco suits and medical-malpractice cases.

“Mad County” judges are famous for taking on cases other courts refuse, and not holding back when it comes to the penalties. In March 2003 one judge awarded $10.1 billion to the plaintiffs in a class-action suit against Philip Morris on the basis that “light” cigarettes had been misleadingly labelled. Like many other Madison awards, the appeal is now being heard in the Illinois Supreme Court.

A study last year by the Illinois Civil Justice League (ICJL), a tort-reform group, found that more than 400 medical-malpractice lawsuits (naming almost 1,100 defendants) were filed in Madison and St Clair counties in 2000-03. Around 40% of the defendants were sued by lawyers connected to two local law firms. Ed Murnane, head of the ICJL, claims there is an “unwholesome relationship” between judges and trial lawyers, who move from private practice to the bench and back.

Like many other states, Illinois elects (rather than appoints) its judges. This has allowed the trial lawyers, through the local Democratic Party, to keep a firm grip on the system. For instance, in Cook County, which includes heavily Democratic Chicago, hardly any Republicans bothered to run in judicial elections last year.

Yet there are signs of rebellion in southern Illinois. In a district election to fill a seat on the state Supreme Court, Gordon Maag, a Democratic trial-lawyer-turned-judge from Madison County, was beaten by Lloyd Karmeier, a Washington County judge backed by the ICJL and the Illinois Chamber of Commerce. Mr Karmeier was the first

Republican to be sent to the Illinois Supreme Court from the district in 35 years. Voters were so unhappy with Judge Maag that they kicked him off the local appellate court too.

The ATRA thinks the pendulum is beginning to swing back its way. To cite one example, Mississippi, it claims, has become a much fairer state. A federal tort-reform law would add momentum to its drive. But there is a limit to how much Washington can dictate in a system where so much power lies with the states and those elected judges. And the trial lawyers are not about to give in easily. The Karmeier-Maag battle took place in one of the poorest and most sparsely populated bits of Illinois; together, the two sides raised nigh on $10m.

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Wasting public money

The long and expensive road

Jan 6th 2005 | ATLANTA
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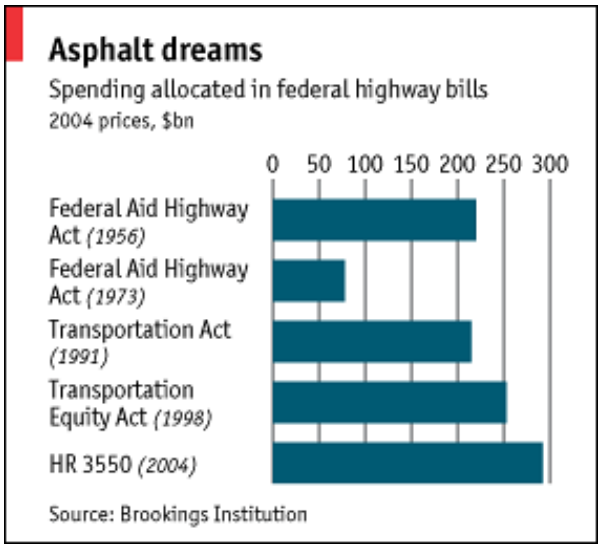
The taxpayer spends more money on America's roads than ever. Why?


Asphalt dreams
Spending allocated in federal highway bills
2004 prices, $bn
0 50 100 150 200 250 300
Federal Aid Highway Act (1956)
Federal Aid Highway Act (1973)
Transportation Act (1991)
Transportation Equity Act (1998)
HR 3550 (2004)
Source: Brookings Institution

YOU can drive from San Francisco to Paterson, New Jersey, on Interstate 80 without paying a cent (save for petrol and the occasional meal). Or so it would seem. The truth is that America's huge network of interstate highways—or freeways, as they are often ironically known—chews up enormous amounts of money.

The last proper highway-funding bill was passed in 1998 after much wrangling. Grandly named the Transportation Equity Act for the 21st Century, it cost $218 billion and covered the period until September 2003. It has been extended six times as Congress debates how much to inflate its replacement. The Senate originally floated a $318 billion bill; that has since been combined with a House bill and reduced to a more acceptable $292 billion until 2009. Showing rare restraint, George Bush has indicated that he won't sign any bill exceeding $256 billion.

To put these numbers in proportion, the original 1956 act that created the federal highway system spent only $219 billion (in current dollars) over 13 years. And it is not as if the new money is going into building new roads: the highway system is pretty much the same as it was in the 1970s. What, then, is pushing costs to these stratospheric levels?

Most of the money goes into maintenance, which is sorely needed. In 2002 the Department of Transportation estimated that 12% of rural interstate roads and 28% of urban interstate roads were in “poor or mediocre” condition. The roads take a daily pounding. Thicker surfaces would be able to stand the wear and tear, but construction standards have not been updated since the 1950s.

Increased use is not the only problem. One reason why trucks do so much damage, says Clifford Winston, an

economist at the Brookings Institution, is the tax system. Oregon is the only state to tax lorries by the amount of weight carried per axle: more axles carry the truck's weight more evenly, easing the pressure on the road below. Every other state charges trucks by fuel consumption, and more axles mean more friction and weight, reducing fuel efficiency. Many state highways also charge higher tolls for more axles.

Maintenance costs are further increased by the Davis-Bacon act, a 1931 law requiring federal construction projects to match prevailing wages in the area. That seldom encourages efficiency. Atlanta's drivers alone currently face 16 different sets of major road-works on the local state and federal highways.

Construction accounts for $194 billion of the proposed $292 billion bill; much of the rest is devoted to “demonstration projects”. Since 1982, when legislators were allowed to earmark transport funds for specific highway bills, this has been a convenient way of dishing out congressional pork. Interstate 99 in Pennsylvania, for instance, received $370m in funds despite running through an area with hardly any people. I-99 is also known as “Bud Shuster Byway” after the long-serving Republican congressman who secured the money for his grateful constituents.

Highway money is also an important part of the tussles between Washington, DC, and the states. The latter, eager to point to highway construction as a sign of growth, love getting federal funds; the federal government, in turn, has found that threatening to cut off highway money is a good way to get states or municipalities to do something else. For instance, by 1984 a mere 23 states had raised the drinking age from 18 to 21. Then a law was passed to allow the government to withhold highway funds from the rest; by 1988, all the states had fallen into line. In 1999, Atlanta lost funding for 44 local road projects after failing to meet air-pollution standards set in the 1990 Clean Air Act.

Politicking about the main source of highway funds, a tax on gasoline, could also end up increasing road spending. At the moment, the more populated states get a bad deal: California receives only $0.90 in highway spending for every dollar it pays in petrol taxes, compared with Alaska's $6.08. Now SHARE, a group which represents these “donor states”, wants a guarantee that all states will get back at least 95% of their petrol-tax payment—but that would require a larger new transport bill.

Is there a better way? Mr Winston suggests charging variable tolls for road space: toll lanes already exist on busy routes such as I-15 near San Diego and I-10 near Houston. Or roads could be privatised. A $175 billion plan is afoot to build a Trans-Texas Corridor—an enormous project including 4,000 miles of private toll roads as well as a railway packed into a quarter-mile-wide swathe of land that would go past, rather than through, the state's big towns. In theory, it could generate $135 billion for Texas over the next half-century. Whether Americans will warm to the idea of paying to drive on many more roads remains to be seen; if they don't, they will simply pay the tab through higher taxes.

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Lexington

The emerging Democratic minority

Jan 6th 2005
From The Economist print edition

Time to squash a bit of political revisionism

TWO months after the bitterest defeat in living memory, things are looking up for the Democrats. Or at least they are looking up in the rarefied world of political commentary. John Judis and Ruy Teixeira, who published “The Emerging Democratic Majority” shortly before the Republicans' triumph in the 2002 mid-term elections, argue that “George Bush won re-election by a smaller margin than Bill Clinton, Ronald Reagan, Richard Nixon or Dwight Eisenhower—and against a deeply flawed Democratic opponent.” Scott Turow points out that the Republicans owed their gains in the House entirely to redistricting in Texas. On NPR and the BBC, a crushing defeat for American liberalism is metamorphosing into a damn close-run thing.

Warnings about Republican fragility are also coming from less predictable quarters. Christine Todd Whitman, Mr Bush's first environmental chief, thinks he missed an opportunity to broaden his support in the most populous parts of the country. Ken Mehlman, the Republican Party's new chairman, warns that the majority is “not overwhelming” and won't produce “automatic victories”. Jonathan Rauch, a libertarian commentator, compares Mr Bush's Republicans to Margaret Thatcher's Tories: overreach could be followed by years in the wilderness.

The Bush White House certainly has its problems. Mr Bush's job-approval rating is stuck at 49%, the lowest for any re-elected president. Most American voters now think that invading Iraq was a mistake. The Republican Congress is afflicted with a strange mixture of hubris and fractiousness. Yet the candidates vying to lead the Democratic Party should definitely not deny the magnitude of Mr Bush's victory last November—let alone declare it a mere detour from the road to a Democratic majority.

Think for a moment of all the traditional excuses that Democrats make for losing elections: that the party was torn apart by internal rivalries; that the electorate focused on trivia; that the economy was doing unnaturally well; that the Republicans had far more money; and, perhaps most important of all, that voter turnout was disgracefully low. None of these applied in 2004.

The Democrats united early and enthusiastically behind John Kerry. The election turned on big issues: terrorism, Iraq and tax cuts (and Mr Kerry dealt with them admirably in the debates). The economy was iffy at best. Mr Bush's $40m advantage over Mr Kerry in fund-raising was more than offset by the spending power of shadow groups. Democratic-leaning “527s” spent $292m compared with $113m for their Republican rivals, and trade unions spent $192m compared with a mere $17m by business groups. The level of voter turnout was the highest for decades. And yet the Republicans swept the board.

Mr Bush not only won 51% of the popular vote—something no Democrat has managed since 1964. His party succeeded in improving its hold on both the House and the Senate while also maintaining its majority among governors and its advantage among state legislators. Yes, gerrymandering in Texas helped in the House, but given that 90% of incumbents are re-elected it may take years to erode the Republicans' 30-seat margin. As for the Senate, the Democrats are going to have to defend more vulnerable seats in 2006.

Democratic apologists argue that Mr Bush failed to engineer a political realignment as big as Reagan's in the 1980s (when the white working class abandoned the Democrats). But Mr Bush does not need to repeat such a tectonic shift in order to create a Republican majority. He merely needs to consolidate his Republican base while further eating into Democratic constituencies such as minorities and women. Joanna Sixpack has abandoned the Democrats in the same way that Joe did 20 years ago. Mr Kerry trailed Mr Bush among non-college-educated white women by 23 points. Overall, the Democrats' lead among women has shrunk from 16 points in 1996 to three in 2004.

Similarly, the Republicans look closer to being a big-tent party than their rivals. They have deepened their hold on the conservative South; but they can also boast the governorships of some of the country's most liberal states, such as New York and California. And they seem to be better at making converts than Democrats are. A survey at the two parties' conventions found that only 14% of Democratic delegates had switched sides, compared with 28% of Republican delegates.

An excuse or a symptom?

Democratic apologists say Mr Kerry was a deeply flawed candidate. But who would have done better? Screamin' Howard Dean? Or snorin' Dick Gephardt? Of course, Mr Kerry was no Bill Clinton, but Mr Bush was no Ronald Reagan: such naturals appear only once in a generation. Mr Kerry, like Al Gore, was a symptom of the Democrats' problems, not the cause of them.

Mr Rauch is right to warn of overreach. The history of second-term presidencies is hardly auspicious, and there is a clear danger of social conservatives alienating more middle-of-the-road voters: look at the way that fratricide and extremism are eroding the Republicans' grip on Colorado. But the comparison with Lady Thatcher actually underlines the structural strengths of the Republican revolution. Conservative Party membership halved between the mid-1970s and the late-1980s. By contrast, in 2004 Mr Bush deployed the biggest army of party volunteers in Republican history. And while Lady Thatcher could never rely on a vibrant conservative movement (unless you regard a couple of think-tanks as a movement), American conservatism has been going from strength to strength since the 1950s.

None of this means that the Republicans have a lock on power: the American people have always been nervous about handing all branches of government to a single party. But whoever becomes the Democratic Party chairman next month should not imagine he is leading the majority.

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Mexico's northern border

Dangerous desert, breached border

Jan 6th 2005 | NOGALES AND TUCSON
From The Economist print edition

Getty Images

The flow of migrants to the United States has become prey to organised criminal gangs. That is a problem for Mexico as well as for its neighbour

Get article background

EDDY was shambling along the side of a highway a few miles inside the American border south of Tucson, Arizona, when he was picked up by the United States Border Patrol just before Christmas. Aged 20, and from Guerrero in southern Mexico, he was exhausted after wandering for two nights alone through the desert. With just $2 on him, he had become separated from friends during their illegal crossing of Mexico's northern border. Eddy's third attempt to join his brother, who works in New York, thus ended in failure. After giving him water, the Border Patrol took him off to be repatriated. Barring evidence of criminal activity, within four hours he would be back in Mexico again.

By then, Eddy had become a statistic. However much security has been beefed up on the northern side of the border since the terrorist attacks of September 11th 2001, this does not seem to have diminished the tide of would-be migrants from making the perilous journey north to seek better-paid jobs in the United States. A growing minority of them come from Central and South America, including distant Brazil, having illegally crossed Mexico's southern border with Guatemala. But the vast majority are Mexicans from the country's poorer south. Their numbers seem to have increased, despite a recovery in Mexico's economy over the past year.

Mexico's president, Vicente Fox, has called these economic migrants “heroes”. They send back some $14 billion a year in remittances—more than Mexico's booming tourist industry brings in. As Mexicans see it, they also keep the American economy afloat on cheap and reliable labour. That is the premise of a recent film, “A Day without Mexicans”. It is a satire that imagines California's Mexican maids, nannies and hedge-trimmers downing tools for a day to watch their employers suffer a collective nervous breakdown as they try to fix their breakfast orange juice. Mexican officials have long used such arguments to press a moral case for immigration reform in the United States—a cause to which George Bush again pledged himself when he met Mr Fox at a regional summit in Chile in November.

This moral case means that Mexicans have long seen the border and illegal immigration as a purely American problem. Indeed, Mexico's constitution enshrines the right to migrate, unimpeded by government. This week, American groups lobbying for tighter immigration control objected to a comic-book published by the Mexican government advising migrants how to survive the border crossing. To Mexican officials, this is just dispensing humanitarian advice. For their American critics, the pamphlet gives foreigners tips on how to break American law.

In fact, it is becoming harder for Mexico to sustain its hands-off approach to migration and the border—for two reasons. First, the migrants themselves suffer rising crime and violence. In Nogales, three hostels are full of desperate migrants who have travelled hundreds of miles only to be robbed of everything at knife- or gun-point. Many such robberies are the work of organised gangs. Much the same happens on Mexico's southern border, where Central American gangs terrorise towns like Tapachula.

Second, some Mexicans argue that if Mexico were to take more responsibility for controlling its own borders, this would help the arguments of American politicians—ranging from John McCain, an Arizona Republican, to Edward Kennedy, a Massachusetts Democrat—who support immigration reform.

For the past decade, American policy has been directed at making illegal crossings harder. In more populated stretches of the 2,000 mile (3,200km) border, in California and Texas, long fences have been built and extra Border Patrol agents deployed. That has only shifted the problem—most obviously to the unprotected deserts of Arizona and New Mexico, where nothing more than a couple of strands of barbed wire marks the border for hundreds of miles. In the year to last September, the Border Patrol in the Tucson sector, which polices 261 miles of frontier, made 491,000 arrests—up by 42% from the previous 12 months. American officials point out that the rise in arrests is partly because the Tucson sector was reinforced with 200 extra officers last year. But nobody denies that it also points to an increase in the numbers trying to cross. In the Yuma sector, 23,716 migrants were arrested between September and December, up from 8,768 in the same period of 2003.

The switch to the Sonora desert and nearby mountains—baking by day and freezing by night—has made crossing more hazardous in other ways. Mexico's government says that 300 people died trying to cross last year—a record number. Around half of these died in the Sonora desert. The greater risks mean that more migrants are forced to rely on the dreaded *coyotes* to take them across the desert. As often as not, these “guides” leave their clients stranded in the desert at the first hint of trouble, having charged up to $1,500 for the journey to, say, New York.

The *coyotes*, of whom there may be several hundred in the Arizona area, now lead smuggling organisations which are changing and becoming more organised and sophisticated, according to Andrea Zortman of the Border Patrol in

Tucson. Some use the migrants as mules to carry drugs over the border, as payment for their passage. American officials worry that these smuggling gangs could serve as a conduit for terrorists or their weapons to enter the United States. Al-Qaeda is reported by American sources to have been in contact with Honduran *coyotes*.

Mexico has done little to combat these increasingly organised gangs. It has no equivalent of the Border Patrol. Grupo Beta, a government outfit short of manpower and equipment, provides humanitarian aid to migrants, but is not supposed to stop them crossing. As the debate on immigration reform heats up in Washington this year, some Mexicans are starting to say that their country will have to become part of the solution to border insecurity—rather than a mere spectator.

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Peru

Tragi-comic farce

Jan 6th 2005 | LIMA
From The Economist print edition

Small rebellion, big questions

Get article background

ON NEW YEAR'S DAY in 1994, Sub-Comandante Marcos, the leader of the Zapatista movement, led a surprise uprising in southern Mexico that prompted headlines around the world and shook his country's ruling party. If Antauro Humala, a retired Peruvian army major, hoped to repeat Marcos's feat, he was deluded. On January 1st, with some 150 armed followers, Mr Humala seized the police station in Andahuaylas, a small town deep in Peru's southern Andes, taking 17 hostages. He called on Alejandro Toledo, Peru's democratic president, to resign. The rebellion was all over after three days of tragi-comic farce, in which four policemen and two rebels were killed. Mr Humala was arrested after talks with a government emissary; his followers gave up the next day.

Mr Toledo dismissed the incident as the work of a “terrorist-fascist” movement funded by drug money. Mr Humala will face terrorism charges. Yet his antics invite some questions. He heads an ultra-nationalist movement which calls for state ownership of strategic industries, freedom to grow and sell coca (used to make cocaine), and the death penalty for corrupt officials. Together with his brother, also an army officer before being ordered to retire last month, he staged a brief military rebellion shortly before Alberto Fujimori, Peru's authoritarian president from 1990-2000, fled to Japan. Although they are *mestizos* (of mixed blood), their movement plays on Peru's Andean Indian cultural heritage. It has fascist overtones: many of their followers are former army conscripts. Mr Humala claims to have organised some 3,000 “reservists” in “battalions”.

How did Mr Humala manage to mobilise 150 people two days before the uprising without the government noticing? The Interior Ministry in May had asked for a judicial probe of the Humala movement, but the attorney-general's office did not act. Officials had received information that the movement was stockpiling arms—but the reorganised and still ineffectual intelligence services failed to follow this up.

The Andahuaylas incident forms part of a broader pattern of lawlessness in parts of Peru. Ironically, the country is doing well in many ways. The economy has grown at a steady 4% for more than three years. Growth is finally starting to reach people's pockets. But Mr Toledo has gained no credit. He is deeply unpopular. Both his sister and his former lawyer face corruption investigations.

With a presidential election due in April 2006, Peru faces a turbulent 15 months, as would-be politicians stage street protests to gain attention. An absurd electoral law inherited from Mr Fujimori means that parties can only take part if they have official registration, for which they must gather 120,000 signatures. That is an obstacle to the democratic political renewal that so many Peruvians crave. Fortunately, most abhor political violence, having suffered much from 1980-92. But Peru urgently needs firm, clean and competent government.

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Grief and anger in Argentina

Argentina's dancehall tragedy

Jan 6th 2005
From The Economist print edition

After a fire in a Buenos Aires dance hall during a concert by Los Callejeros, a rock band, on December 30th killed at least 186 people and injured some 700, the search for whom to blame for the tragedy has quickly begun. Public villain number one is the nightclub's owner, Omar Chabán, who is under arrest. The club's emergency exits were bolted shut, and it was packed with some 4,000 people—roughly three times its legally permitted capacity. But grieving relatives have staged marches calling for the resignation of Aníbal Ibarra, the mayor of Buenos Aires. He responded by closing all clubs in the city for a fortnight. The fire began when some concert-goers—mostly young teenagers—threw flares. In doing so, they ignored specific pleas by Mr Chabán and by the band. They have not been identified, and police are unsure whether they survived. But they have attracted little public opprobrium. Blaming the politicians is much easier.

AP

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The tsunami

After the deluge

Jan 6th 2005 | BANGKOK
From The Economist print edition

AP

The world is responding generously to the emergency needs of Asia's shattered coastal communities. But rebuilding will take more than money

THE waters have receded; the tragedy is mounting. Almost two weeks after a towering tsunami swept across the Indian Ocean, the death toll is some 150,000 and is still climbing. Yet attention must now focus on the survivors of the cataclysm. United Nations officials estimate that about 500,000 have been injured and millions more left homeless. Providing them all with food, water and medicine is proving difficult enough. But the hardest-hit communities will need not just temporary succour, but near-total rebuilding—if, indeed, they can be revived at all.

It took the first-aid shipments over a week to reach some of the most remote devastated areas. Along the western coast of Aceh, at the tip of the Indonesian island of Sumatra, many roads and ports had been completely washed away, forcing relief workers to deliver aid by air. When the first helicopters, dispatched from an American aircraft-carrier, arrived over some stricken villages, surging mobs of famished people prevented them from landing. Other villages had been obliterated entirely. After visiting the ruins of the city of Meulaboh, Susilo Bambang Yudhoyono, Indonesia's president, complained that the relief effort had been too slow and asked for more aid.

The full extent of the tragedy, as many have said, will never be known. In Aceh, a decades-old insurgency has prevented the authorities from holding a reliable census for years. Many bodies were washed out to sea, or buried under debris, and will not be counted, let alone identified. Even in relatively rich and well-organised countries like Thailand, thousands remain missing.

But as relief efforts gathered pace, a crude picture of the calamity emerged. As suspected from the outset, Aceh, the region closest to the epicentre of the earthquake that caused the tsunamis, suffered the most casualties: almost 100,000 killed, at the last count, and many more injured or left homeless. Some 30,000 perished in Sri Lanka, and thousands more in India, Thailand and elsewhere.

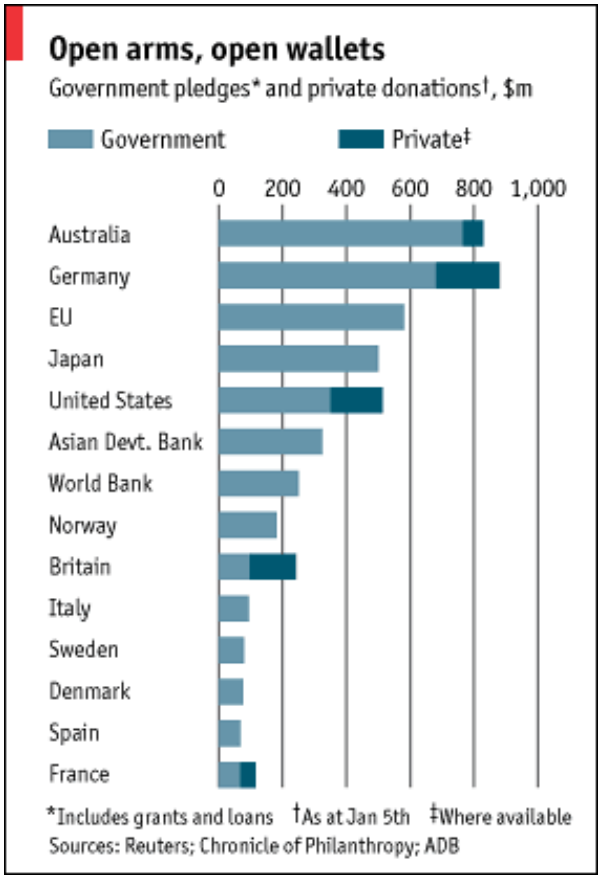
Relief workers have now reached almost all areas, save parts of Aceh and some tiny, remote islands. The secretive and incompetent military regime in Myanmar caused concern by refusing aid, insisting that only 59 people in the country had died. But it eventually relented and admitted representatives from various aid agencies. One of them, from the World Food Programme (WFP), found nothing to contradict the government's death toll, but estimated that up to 30,000 Burmese may need handouts of food. Some doubt also remains about the fate of tribesmen—indeed, entire tribes—living in India's Andaman and Nicobar islands. However, a hail of arrows, shot up from the forest of one tiny island at an Indian coast guard helicopter hovering above, suggested that there were at least some survivors.

By far the biggest concern, however, is the state of the survivors. Millions were left without food or shelter. Thousands have broken bones and appalling lacerations from their pummelling by the waves. Many have pneumonia, thanks to long stints in cold water. Fears remain that unsanitary conditions amid the ruins, and a lack of clean water in particular, could lead to outbreaks of disease.

Even places where the death toll was relatively low are in dire need of help. The tsunami killed only 82 people in the Maldives, for example. Yet they washed over the entire archipelago—where the highest ground is 1.8 metres (six feet) above sea level—destroying most buildings and contaminating water supplies. Seventy-nine of the country's 199 inhabited islands no longer have safe drinking water, says the government. Fourteen were so badly damaged that their entire populations have been evacuated. Some 60,000 people—a fifth of the population—are short of food.

The world chips in

Money, at least, does not seem to be a problem. Donors have already pledged over $4 billion, and have offered to stump up more if need be. Germany alone has pledged $674m, followed by Japan with $500m, Australia with $380m and America with $350m. These government grants do not include weighty sums donated by private citizens around the world. Ordinary Americans, for example, have already stumped up over $100m. George Bush has asked his father and another ex-president, Bill Clinton, to promote a campaign to raise yet more. Gordon Brown, Britain's chancellor of the exchequer, has also proposed debt relief for the countries affected by the tsunami.



That leaves logistics as the main challenge facing the relief effort. Infrastructure in the most ravaged areas, including Aceh and the southern and eastern coasts of Sri Lanka, was never great in the first place. The tsunami has made matters much worse. Roads are being hastily repaired and ports and airstrips cleared to ease the delivery of aid.

There simply are not enough trucks in Sri Lanka to handle all the supplies arriving there, according to Anthony Banbury, the regional head of the WFP. The organisation is trying to import more, he says, and is also on the lookout for barges, hovercraft and planes small enough to land on tiny airstrips. As it is, the WFP has had to rely on outside help to transport many of its provisions. The Australian navy and American helicopters have ferried rations to remote corners of Aceh, for example. Inevitably, bureaucratic rows and bottlenecks have slowed the distribution of aid. India has turned down most foreign help, to the dismay of many commentators.

Rumours are already spreading of greedy Indonesian officials pocketing goods intended for the victims. Heavy rains have brought further chaos to eastern Sri Lanka. The main airport in Aceh was closed for half a day after a plane hit a water buffalo that had strayed on to the runway. The buffalo survived, but the plane could be removed from the runway only with special lifting equipment rushed in from Singapore by helicopter. Even better off and more accessible countries are suffering from specific shortages: Thailand says it needs not money, but help with storing and identifying bodies, which are rotting in the tropical heat.

Nonetheless, most victims now have access to food, water, shelter and basic medical attention. The WFP is feeding half a million people. India has provided temporary accommodation for 380,000, while camps for another 500,000 are being built in Aceh. Medical teams have arrived in many remote areas, while some of the injured have been evacuated to relief centres. The United Nations Children's Fund is even inoculating against measles hundreds of thousands of children displaced by the tsunami.

In some areas, a semblance of normality has returned. Children went back to school on the west coast of Thailand earlier this week, and are scheduled to do so in southern India soon. The governments of Thailand and Sri Lanka are at pains to emphasise that business is going on as usual in most parts of the two countries, for fear that tourists will stay away and thus compound the economic damage wrought by the tsunami.

How to rebuild?

Officials in the affected countries are already turning their attention to longer-term planning. On January 6th, the Association of South-East Asian Nations (ASEAN) convened a summit in Jakarta to discuss what needs to be done. Many regional leaders attended, along with such dignitaries as Kofi Annan, the secretary-general of the United Nations, and Colin Powell, America's secretary of state. Mr Powell offered American help to set up a system to provide advance warning of tsunamis in the Indian Ocean, similar to the mechanism already in place in the Pacific. For the most part, however, discussion centred on the problems of reconstruction.

They are many. Given the huge sums of money available, it should eventually be possible to rebuild ruined houses, repair infrastructure and replace damaged goods. But the process will be enormously complicated and time-consuming. According to Derek Staples of the Food and Agriculture Organisation of the United Nations (FAO), some 80% of the fishing vessels along Sri Lanka's coastline have been damaged—half of them irreparably. The poor fishermen who use them have no money to pay for repairs or replacements, or to feed themselves while they wait for help to arrive. Millions of people throughout the region are in the same state.

Moreover, those few fishermen who still have vessels may find that there are far fewer fish to be caught. The FAO has received several reports of reefs smashed by the tsunami or buried under silt. The same applies to large areas of mangrove forest and reed beds, breeding grounds for fish. Since there have been no tsunamis of comparable size in the Indian Ocean in living memory, no one knows how badly fish stocks will be affected or how long they will take to recover.

The outlook for coastal farming is equally bleak, according to Gamini Keerthisinghe, an agricultural expert at the FAO. He says that seawater has penetrated up to three kilometres (1.9 miles) inland in some places, killing crops and contaminating wells. But it may well have leached further underground, or into the water table. In theory, farmers could restore their fields by flushing them with fresh water. But many of the necessary irrigation channels were themselves destroyed in the tsunami, while the water sources that feed them may also have been contaminated. Mr Keerthisinghe tells of one Sri Lankan farmer who drained a contaminated well five times after the tsunami had receded, only to find seawater seeping back. The business of conducting tests to see how widespread

such problems are is expected to take six months or so.

Tourism, too, will suffer (see article). The tourists themselves may be willing to return to the region quite quickly, as they did after an outbreak of SARS, a respiratory disease, in East Asia in 2003. But the facilities to receive them may take longer to repair. Nineteen of the Maldives' 87 resorts are said to be severely damaged. Hotels in southern Sri Lanka fared even worse. Since tourism, fisheries and agriculture are the three main industries in the affected areas, the unemployed have no alternative livelihoods to fall back on. Mr Annan has declared that it may take as long as ten years to set all this to rights.

Some spots may never recover. It makes little sense to reconstruct an entire village from scratch amid contaminated fields close to depleted fishing grounds for a greatly diminished population. Already, officials are talking about moving settlements away from the shore, changing building codes, introducing new crops and amending fishing regulations. Some environmentalists argue that the clearing of mangroves to make way for shrimp ponds exacerbated the damage. They want to set up reforestation projects. While such debates grind on, impoverished victims of the tsunami are likely to drift to cities or abroad seeking employment.

Political reverberations

Much will depend on how the governments concerned handle the reconstruction. Thaksin Shinawatra, the prime minister of Thailand, has already ordered state-owned banks to lend to the rebuilding effort. He has also eased visa requirements for tourists in an effort to stem departures. Thais seem to like this can-do attitude: Mr Thaksin's ratings have jumped since the tsunami struck. All this may boost the ruling Thai Rak Thai party's fortunes in a general election scheduled for February 6th. At the very least, the crisis seems to have distracted attention from the continuing insurgency in southern Thailand, which the authorities have been battling for a year with little success.

Mr Yudhoyono, the president of Indonesia, has also cut a dash during the crisis. His predecessor, Megawati Sukarnoputri, shrank from public appearances and delegated most work to her ministers. Mr Yudhoyono, by contrast, flew to Aceh from the opposite end of the country as soon as news of the tsunami reached him.

The tragedy may even help to change the course of the long-running separatist rebellion in Aceh. Many Indonesians dismiss the province as a puzzling and troublesome place. Yet the tsunami has prompted an unprecedented rush of interest and sympathy. It has also forced the government to admit aid workers and journalists in great numbers for the first time in several years. The army's conduct will be subject to greater scrutiny, while the guerrillas of the Free Aceh Movement will find it hard to stage any attacks without looking callous.

The relief effort is also doing wonders for Indonesia's foreign relations. America suspended all military co-operation with Indonesia in 2001, in protest at the Indonesian army's conduct in East Timor. But American soldiers have been working side-by-side with their Indonesian counterparts to deliver aid. Australia, too, is lavishing aid in an effort to patch up ties that had been strained by its government's recent talk of unilateral strikes against suspected Indonesian terrorists.

Indeed, the catastrophe has provided all manner of diplomatic openings. India, although itself afflicted, has sent aid to Sri Lanka and the Maldives to cement its standing as the primary power in the region. Its rival, China, is also loosening its purse-strings. Within Sri Lanka, the government and Tamil separatists appear to be co-operating in the relief effort. The goodwill generated by these gestures may ebb when the crisis recedes, of course. But for the time being, it is one of the precious few reasons for cheer.

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Sri Lanka

Still squabbling

Jan 6th 2005 | COLOMBO
From The Economist print edition

Officials and rebels are arguing over aid

Get article background

AP

Unserene Sri Lanka

FOR those seeking a silver lining in the wake of the tsunami's destruction, Sri Lanka looked like a good place to start. For the first few days after the waves struck, government officials and separatist rebels sounded a conciliatory note. Both sides called for national unity and vowed to co-operate over relief efforts. This collaboration, many hoped, might help build trust. A resumption of peace talks—on hold since early 2003—seemed possible, and perhaps an end to the 30-year-old civil war pitting mostly Hindu Tamil rebels against the mostly Buddhist Sinhalese government.

But in the last few days, a war of words has broken out again. Spokesmen for the Tamil Tigers, as the rebels are known, have accused the government of dividing aid unfairly. More is being sent to the largely Sinhalese south, they say, than to the Tamil-majority areas in the east. The government, for its part, claims that the Tigers are trying to pass off its aid as their own, and even spurning assistance in order to exacerbate the crisis and so win international sympathy.

So which is it: sweetness and light or business as usual? A little of both, it seems. Stories abound of ordinary Tamils and Sinhalese helping one another. A genuine spirit of reconciliation seems to have infected some of the wave-ravaged districts. “People were seeing each other as human beings and not as Tamils, Sinhalas or Muslims,” said one resident of Batticaloa, on the eastern coast.

For sure, there has been some co-operation between low-level functionaries on both sides. Government officials have helped to distribute aid in Tiger-controlled areas. Government soldiers are even said to have co-ordinated with their rebel counterparts to speed the flow of emergency supplies through military checkpoints.

But, equally clearly, neither side can resist the temptation to score political points. Chandrika Kumaratunga, Sri Lanka's president, says she is not sure if the Tigers can be trusted. A spokesman for the Tigers, in turn, declared that the new-found friendship with the government was purely practical and did not in any way alter the group's determination to bring about an independent Tamil state.

All the same, the tsunami probably has reduced the odds of renewed conflict. According to Mrs Kumaratunga, the waves washed away much of the Tigers' weaponry. Their naval base at Mullaittivu is said to have been severely damaged. The army, too, has its hands full assisting the newly destitute. What is more, the tsunami almost certainly shifted many landmines around, leaving everyone in the dark about where they lie—another reason for both sides to think twice before going back on the offensive.

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Indonesia

Aceh's grief

Jan 6th 2005 | BANDA ACEH
From The Economist print edition

As more and more refugees arrive, the provincial capital tries to recover

AFP

And not much time to mourn

ON THE streets of Banda Aceh, men and women are still wandering in shock. Many barely know where they are. Others just sit and sob, rocking gently from side to side.

Almost two weeks after the earthquake and the tsunami it triggered, the stench of death is slowly fading from the city at the centre of the devastation. Days of toil by thousands of Indonesian soldiers have removed the mountains of bloated corpses from the streets. What they cannot remove is the trauma of those who have survived. Indonesia has only a tiny number of people trained to give the sort of psychological counselling that might help. Tens of thousands of people, therefore, may suffer permanent mental harm.

Around 500,000 Acehnese are now wholly dependent on aid. Their homes have gone, and many have lost everything except the clothes they were wearing when the tsunami struck. Their province has been devastated. More than 1,150 schools, 5,800km (3,600 miles) of road and 490 bridges have been destroyed, and more than one-third of the 4,312 villages have no functioning government. Tens of thousands of refugees are now streaming along the western coast towards Banda Aceh like an army of ants. Many have walked for over a week, driven by their desperation to get to a place that is safe.

Unable to cope with the influx, the authorities have started to build semi-permanent camps, each able to accommodate 20,000 people. Water and food are gradually becoming more available in the city, though many traders have died and many shops have been destroyed. But in isolated districts, where the grim stench has not faded, help is only just arriving. The only lifeline has been a fleet of helicopters carrying essential supplies, including some from an American aircraft-carrier, the *USS Abraham Lincoln*.

Even when outside aid can get to Banda Aceh, it cannot always get much further. A shortage of vehicles is one problem, but a lack of inter-agency co-operation is a much greater obstacle. After decades of international vilification, Indonesia's army dislikes outsiders, particularly in Aceh, where it has been fighting the separatist Free Aceh Movement since 1976. This has translated into acts of seemingly deliberate procrastination and obstructionism, which are only just being ironed out by Indonesia's relief co-ordinator, Alwi Shihab, the senior welfare minister.

As a result of Mr Shihab's efforts, UN representatives are now allowed into co-ordination meetings. Tales of favouritism and military corruption, however, continue to come in from the field. The slew of visits to Indonesia by foreign dignitaries attending the aid summit on January 6th has caused yet more logistical overload.

Medical resources are woefully inadequate. People who survived lengthy buffeting in the fierce waters often need urgent care; but Banda Aceh's main hospital was flooded, and the other two surviving facilities are overwhelmed. For the moment, patients being brought in from the west coast have nowhere to get treatment.

There is no shortage of volunteers willing to help Aceh recover. Many, though, have no particular skills for the work that has to be done, and the challenge is enormous. “The task has become so big, it's a black hole,” says Dennis Heffernan, Mr Shihab's American adviser. “It will take all the energy everyone has, times ten.”

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The world's response

More generous than thou

Jan 6th 2005
From The Economist print edition

Emergency aid is proving just as politically charged as any other kind

Reuters

An alien helper

DISASTER aid is generally thought to be different: everyone is for it. Development aid, by contrast, is often overtly political (it tends to go to friends) and always controversial (is it squandered? does it breed dependency?). Humanitarian aid given after, or during, wars is almost as contentious: it may be used by one side or the other to keep the fighting going or, by donors, to influence the outcome. But aid given after a natural disaster is pure, an affirmation of the best of the human spirit, uncontaminated by politics. That's what used to be said, anyway. It is the first piece of received wisdom to deserve examination after Asia's catastrophe.

Not that individuals have failed to respond generously to the disaster; quite the opposite. They reached for their credit cards from the start, leaving governments scrambling to show themselves just as big-hearted. Tony Blair promised on January 5th to outdo, with British taxpayers' money, whatever they might contribute voluntarily as individuals. Thus came the first politicisation of the tsunami aid: governments using it to win votes at home.

Then came the use of aid to score old points. Jan Egeland, the United Nations' emergency-relief co-ordinator, was accused of being churlish towards the Americans by calling western countries' first pledges stingy; and the French and some other Europeans, joined by some senior UN officials, were cross that the United States had at first set up a “regional core group” with Japan, India and Australia, but not with the European Union or any European country. On January 6th, Colin Powell, America's secretary of state, announced at a tsunami-relief summit in Jakarta that the group would be disbanded, and many of its assets would be put under UN direction.

By this time the aid issue was being used to peddle some pet schemes. Gordon Brown, Britain's finance minister, was arguing the case for a debt moratorium for the countries worst affected. Debt is a crippling burden for many countries, especially in Africa, but relieving it may not be the wisest way to help a government, like Indonesia's, that chooses to spend 3% of its GDP on defence but only 1.3% on education and 0.6% on health. In any event, debt relief will be discussed at a meeting of the Paris club of creditor countries next week.

Some people, however, have much grander, even more political, aims for aid-giving. Mr Powell spelled out his in Indonesia before the summit: “We'd be doing it regardless of religion,” he said of America's contribution. “But I think it does give the Muslim world...an opportunity to see American generosity, American values in action...And I hope that, as a result of our efforts, as a result of our helicopter pilots being seen by the citizens of Indonesia helping them, that value system of ours will be reinforced.” American aid helped dry up the “pools of dissatisfaction” that led to terrorism, he said. But in Aceh, where Indonesian Islamist groups are giving relief, some Muslims have denounced America's help as cynically motivated.

Never mind the motives: is the aid doing any good? By this week, the main concerns were to prevent epidemics, especially those caused by dirty water, to find and tend the injured, to provide shelter and start clearing the debris. Children, who made up over a third of the tsunami's victims, according to the UN Children's Fund, are a key concern. With more money pledged in the week to January 3rd than the UN had received in the whole of 2004, cash is not the problem. Getting aid workers in place and providing the millions of displaced people with food, shelter, clean water and medical help are much harder.

Outsiders' relief operations fall into two categories. First, some foreign governments have sent members of their armed forces. The United States has dispatched more than 20 naval ships, including an aircraft carrier, the *USS Abraham Lincoln*, and a hospital ship, plus 1,300 marines. It has also sent six big transport aircraft and nine surveillance and rescue planes. Britain has sent two naval vessels; military help has also come from Australia, Germany and Pakistan. Japan is planning military aid.

Meanwhile, umpteen aid agencies have joined the cause. More than 50, said the UN, were this week opening field hospitals in Aceh alone, and countless more are working in other stricken places. Many were present in one of four regional centres: Colombo, Sri Lanka's capital; Banda Aceh, the provincial capital of Aceh; Meulaboh, not far to its south; and U-Tapao, a military base in Thailand.

But who was in charge? No one. At the summit in Jakarta, a powerful array of world leaders pledged to put their contributions through the UN; until then, only rough co-ordination efforts had been carried out by its agencies and the American-powered “regional core group”.

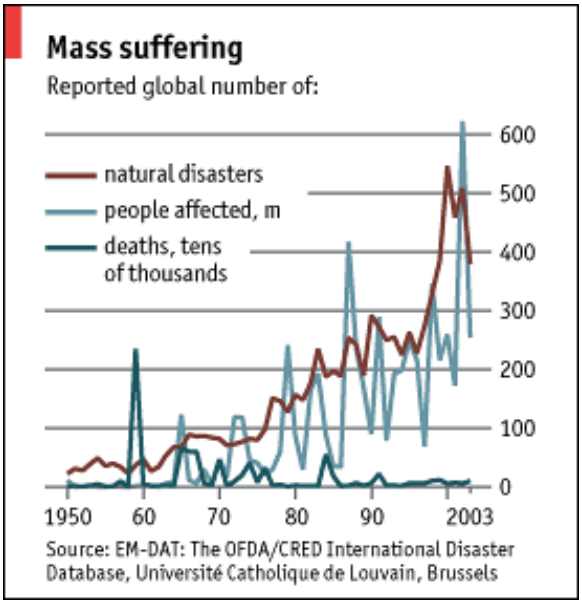
Prior to the meeting, Mr Egeland was still appealing for more help, especially for helicopters, fork-lift trucks, boats, planes, air-traffic-control units and lorries. The International Federation of Red Cross and Red Crescent Societies says half a million people will need emergency help for another six months. Then, though, as reconstruction begins, the disaster relief will start turning into development aid. What can the victims, and their governments, expect?

Disappointment, if past form is repeated. Of the $1.1 billion pledged to help the people of the Iranian city of Bam, destroyed by an earthquake in 2003, only $17.5m was sent, according to the Iranian government. Mozambique likewise received less than half of the $400m it was promised after the floods of 2000, said a minister. And Honduras and Nicaragua still await two-thirds of the $8.7 billion proffered after Hurricane Mitch swept through in 1998. Other countries have similar tales to tell. The IMF, World Bank and individual countries accused of breaking their word may have had good reasons for doing so: perhaps the intended recipients were in no position to make good use of further money. But, if so, donors should now be more careful about their pledges.

There are other fears: that “aid fatigue” will set in, leading donors to forget other needy recipients, such as AIDS and malaria sufferers, and the people of Africa. That would be tragic, and an insult to countries like India, whose prime minister was, despite the devastation in Tamil Nadu and elsewhere, going ahead with a long-scheduled AIDS meeting this week.

Many poor countries are already concerned that the lofty aims adopted by 191 countries in the UN Millennium Declaration may be in jeopardy. One prominent aim was for rich countries to strive to reach the long-standing objective of giving 0.7% of GDP to development aid. Several of the countries that have been loudest in their declarations of generosity in the past fortnight are laggards in the giving of development aid. Germany provides just 0.28% of GDP, Britain 0.34%, France 0.41%. The United States, though its citizens are individually generous, is at the bottom of the rich countries' table, giving 0.15% of GDP.

Hopes and fears, however, do not rest on cash alone. If good is to come of the disaster it will come of wider lessons learned. The lateness of the response, the lack of an early-warning system, the paucity of rapid-reaction units and the absence of an overall relief co-ordinator all demand solutions. At present the United States is the only power with a worldwide reach but, even so, it took six days to get 40 helicopters to work in the disaster areas. The UN, for its part, has more experience than any other organisation in delivering emergency relief, but it is a sprawling group of agencies with no resources worth speaking of other than those of its member countries. Somehow power and experience must be married and, with the help of the EU, Japan and others, persuaded to set up a standing disaster-response unit that can act at short notice.



Lastly, more thought, and aid, must be given to reducing the cost and casualties caused by natural disasters. The numbers affected in such catastrophes have been rising dramatically in recent years (see chart), and, according to a report by a charity, Tearfund, they are mostly in poor countries. Tearfund points to the effectiveness of such measures as planting trees to reduce the impact of floods and landslides, building techniques to help houses withstand earthquakes, cyclone shelters, sea dykes and so on. The United States Geological Survey reckons that the economic losses from natural disasters in the 1990s could have been reduced by $280 billion by investing just one-seventh of that sum in such measures. But giving for such ends is not fashionable. Six months before Mozambique was inundated in 2000, its government appealed for $2.7m to prepare for an emergency. It received less than half that. After the floods, but only after them, donors gave about $200m.

As it happens, a UN conference on disaster-reduction has long been planned to take place in the Japanese city of Kobe from January 18th to 22nd. May it lead to action, as well as words.

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Palestine's election

From the circus ring to the tightrope

Jan 6th 2005 | JERUSALEM AND RAMALLAH
From The Economist print edition

AP

For peace talks with Israel to have a chance, Mahmoud Abbas (above) needs not only to win the Palestinian presidential election, but to win it convincingly

HOISTED on the shoulders of masked gunmen one day, denouncing Israel as “the Zionist enemy” another, Mahmoud Abbas this week predictably alarmed Israelis. Yet the belligerence betrays his paradoxical weakness. As the heir apparent to the late Yasser Arafat, he will overwhelmingly win the Palestinian presidential election on January 9th, but will then have to tread several extremely fine lines to win trust—both at home and abroad—and keep his job.

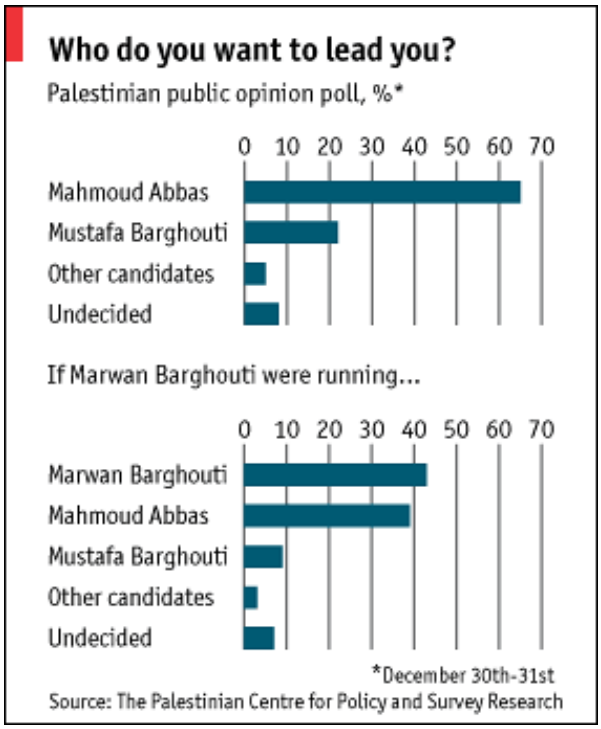
Mr Abbas (also known as Abu Mazen) does represent the best chance for peace talks in years. Israel and the United States froze out Mr Arafat after the start of the second *intifada*, now in its fifth year. Mr Abbas, unlike any other senior Palestinian leader, has long called for armed resistance to stop—a call he renewed last month, to the anger of militants within his own Fatah party. Ariel Sharon, Israel's hawkish prime minister, has spoken of a “window of opportunity”. But on the campaign trail Mr Abbas has looked and sounded more like Mr Arafat, making all the demands—Jerusalem as Palestine's capital, right of return for refugees, and so on—that Israel refuses to countenance.

That should be no surprise. Mr Abbas is out on a lonely limb: the moderate extreme of the Palestinian political spectrum. “His own convictions are completely peaceful and non-violent,” says Qays Abdul Kerim of the Democratic Front for the Liberation of Palestine, a relatively moderate party (ie, it believes in blowing up only military targets and armed settlers, rather than just anyone), adding, “I think this policy is naïve.”

Palestinians agree: a poll last month by the Palestinian Centre for Policy and Survey Research found that almost two-thirds think violence has achieved more than negotiations have. A full three-quarters argue that it is what forced Mr Sharon to order a unilateral withdrawal from the Gaza strip, due later this year. Even Ahmed Qurei, the Palestinian prime minister and backroom negotiator of the 1993 Oslo peace accords, is more sceptical than Mr Abbas: on January 1st he said the violence should end only "if there was a credible, serious peace process", and rejected a conference on Palestinian reform that Britain's Tony Blair proposed and Mr Abbas supports.

If Mr Abbas is really such a radical pacifist, why is he so popular? It is not just the mantle he inherited from Mr Arafat. After four years of bloodshed, 81% of Palestinians, though they deeply distrust Mr Sharon, say they want reconciliation with Israel. They know Mr Abbas is someone Israel might talk to. They also prefer unity to chaos. Marwan Barghouti, the jailed leading member of the Fatah "young guard", pulled out of the election to avoid a split.

But Mr Barghouti extracted promises in return (for instance, to make freeing prisoners a top priority), and a recent poll showed he would still beat Mr Abbas if he ran (see chart): hence Mr Abbas has to watch his back. His biggest challenge may not be from Islamist groups like Hamas, which is boycotting the presidential poll. Though Hamas has gained points by providing social services, and could do well in upcoming municipal and legislative elections, its religious ideology puts off many secular Palestinians. Its support, currently down to around 20%, will never rise much above 30%, reckons Hani al-Masri, an analyst in Ramallah, the Palestinians' administrative capital on the West Bank.



Instead the problem is the faultlines in Mr Abbas's own party: between peaceniks and militants; old and young; returned exiles like him and Mr Arafat and local heroes like Mr Barghouti; the West Bank and Gaza. If he does not do well, anger could spill out at a Fatah congress due in August. There may not be a direct challenge to his leadership, for the "young guard" is a diverse gaggle, and nobody but Mr Barghouti enjoys widespread support; but keeping the party cohesive will be tough.

That is especially true of Fatah's more extreme elements, the al-Aqsa Martyrs' Brigades—a splintered multitude of militias, united in little but name, but collectively responsible for nearly as many attacks as Hamas. Mr Arafat used to buy their loyalty with extensive secret funds. But more recently that money seems to have dried up or gone missing. Israeli intelligence claims that some four-fifths of al-Aqsa attacks are now sponsored by Hizbullah, a Lebanese militant group backed by Iran. Just after Mr Arafat's death, Fatah gunmen burst into a mourning tent that Mr Abbas was in, killing two people. His triumphal progress with al-Aqsa fighters in Gaza this week was both a show of strength and a reminder of potential weakness: they were of a branch loyal to Muhammad Dahlan, the Gaza security chief who is one of Mr Abbas's staunch backers, and thus one of his chief props.

Mr Abbas therefore needs to win comfortably. Hamas, despite its boycott, has not told voters to stay away, but if they do, a low turnout would damage Mr Abbas's legitimacy. So would a big vote for his nearest rival, Mustafa Barghouti (a clansman but not a close relation of Marwan), who is campaigning on another issue that bothers Palestinians a lot: corruption in the Palestinian Authority.

In other words, his fiery stump speeches look designed to get him elected safely enough to give him a free hand for peace talks. His official platform, by contrast, is padded with safety language—not the refugees' "right of return", for instance, but "a fair resolution according to United Nations General Assembly Resolution 194": diplomatic code for "let's discuss it".

His true message will become clear only if peace talks begin. Getting there, however, is a chicken-and-egg problem. Israel wants evidence of a crackdown on terrorists before making concessions. But Mr Abbas "wants to reach a truce with the resistance, a ceasefire through a deal," says Mr Masri. And fighters will lay down arms only if they see that his approach works: in other words, if Israel first makes concessions, such as easing up at checkpoints or releasing prisoners.

What could get the ball rolling? Mr Sharon offered to co-ordinate the Gaza withdrawal with the Palestinians, but Mr Abbas refused because it is not part of a full peace deal. Avi Gil, a former director-general of the Israeli foreign ministry, thinks that Israel needs to make a different overture. It could, he suggests, start by handing over responsibility for security to the Palestinian Authority in one town—Bethlehem, say—and if that works, then another, and another. That would be both a test of Mr Abbas and a sign of good faith.

Time is not on Mr Abbas's side. Both Mr Gil and Mr Masri give him the symbolic 100-day credit limit with Palestinians. "If [Israel's] view is that there is a sequence of first withdraw [from Gaza] and then see what happens," says Mr Gil, "we could miss the chance we've been given."

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Arab elections

Something stirs?

Jan 6th 2005 | CAIRO
From The Economist print edition

Other Arabs in the region might like a chance to boot their rascals out too

THERE are ways to vote, even without democracy. In the election-starved Arab world, a majority of TV viewers now shun the old state channels in favour of racier, satellite fare. Just now they can watch something even more novel on these pan-Arab channels: slick political advertising for this month's polls in Iraq and Palestine.

Those two elections are far from perfect, both taking place amid violence and under foreign occupation. Yet the very spectacle of open choice must make other Arabs ponder.

One might have thought that Saudis, for example, would jump at the chance to vote that they are to be given next month. But the scheduled polls are for only half the seats on toothless town councils, and women are banned from either voting or running as candidates. Only a third of voters have registered.

Nominally democratic Egypt has long suffered from a similar apathy. But change is brewing as the country approaches both parliamentary and presidential polls this year. For the first time in half a century, at least three candidates have dared say they will run against the incumbent, President Hosni Mubarak, who is near-certain to run for a fifth six-year stint. Unprecedentedly, police even tolerated a demonstration last month, where protesters covered their mouths with signs that read, simply and eloquently, “Enough!”

The trouble is that the challengers must first secure a constitutional amendment, since current law gives parliament the task of nominating a single candidate, who is then approved in a popular referendum. And Mr Mubarak's party controls 85% of parliament's seats.

Yet if relatively liberal Lebanon is any example, perhaps constitutional change is not off the cards. In September, its parliament voted to change the constitution to extend the term of the country's pro-Syrian president, so denying citizens a chance to vote on the matter. Diligent MPs are now working on a new electoral law which, many disgruntled ordinary Lebanese fear, will help ensure victory for candidates who support the continuation of Syria's domination over their country, come a general election in May.

On the brighter side, these machinations have stirred opposition. Even some Syrian allies in Lebanon have taken to saying that their people have tired of such games. And perhaps the mood across the wider region really is changing. Even in Baathist-ruled Syria, an obscure engineer by the name of Vahan Kiriakos has had the gall to declare that he wants to run for the top office when President Bashar al-Assad's term expires in 2007. Of course, he lost his government job for the impertinence. But under Mr Assad's father, who ruled Syria with an iron fist for 30 years, he might have lost his head too.

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Iraq

Ever bloodier

Jan 6th 2005 | BAGHDAD
From The Economist print edition

Despite the insurgents' efforts, the election looks likely to happen on time

AFP

Get article background

EVEN by Iraq's recent standards, the first days of the new year were particularly bloody. On January 4th, Baghdad's governor, Ali al-Haidari (right), was gunned down, along with six of his bodyguards, as his motorcade negotiated a busy roundabout in the capital; he was the highest-ranking victim in eight months. Since the year began, at least 90 other people have been killed across the country, including at least five Americans. Nearly 70 of the dead were Iraqi police officers, national guardsmen and security forces: together, they have become the insurgents' prime targets. In the past four months, 1,300 of them are reported to have died.

American generals say they always expected the insurgents to increase their efforts as January 30th, when a general election is due, draws closer. Despite the carnage, they claim that since storming the rebel-held town of Fallujah in November they have had the rebels on the run. The American forces' commander around Baghdad says that for every car bomb that goes off, his forces thwart another that the rebels are trying to lay. But Iraqi officials may be getting less confident that the tide is turning. The head of the country's fledgling intelligence service says that the rebels now number some 40,000 full-time fighters plus another 160,000 part-timers and helpers, several times the largest previous estimate.

There is virtually no pre-election activity in most of the Sunni Arab parts of the country; many political parties have not even announced a list of candidates for fear they will be attacked. Some Sunni politicians in the more tribal areas may be able to win seats by rallying loyal kinsmen to their cause, but others have more or less given up. The country's most prominent Sunni group, the Iraqi Islamic Party, has already decided not to run in the election, though it still condemns the rebels; one of the party's leading figures, a clergyman, was killed this week in the turbulent northern city of Mosul.

Many Sunni leaders who are against the rebels (and will probably win seats by virtue of their inclusion on multi-sectarian party lists that will be voted for in the safer parts of the country) are nonetheless making a last bid to have the elections delayed. The country's president, Ghazi al-Yawer, Iraq's senior Sunni Arab official, said the UN should explore the possibility of a delay, while Iyad Allawi, the interim prime minister, agreed that the UN had the authority to order a postponement if it wanted. Another prominent Sunni, Adnan Pachachi, has also called for a delay, while Hazem Shaalan, a secular Shia who is the defence minister, said a postponement might be worth considering if Sunnis were sure to vote at a later date.

The Kurds, who, like the Sunnis, make up about 20% of the Iraqi population, to the Shias' 60% or so, have been keen to have elections. But some may countenance a delay, if it gives time for more Kurds to settle in the disputed city of Kirkuk before votes are cast.

However, virtually all the Shias, smelling power after more than eight decades of Sunni rule, are adamant that the vote must take place on time. Wary of what might happen if Iraq deviates from its planned political course and loth to hand the insurgents an apparent victory, the Americans also want to stick to the timetable. So a last-minute postponement, though conceivable, is still unlikely.

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Peacemaking in Africa

When the time comes to stop killing

Jan 6th 2005 | DAKAR, GULU AND NAIVASHA
From The Economist print edition

Southern Sudan and Senegal make peace, while Uganda fails to

Reuters

Uganda's soldiers thought it was all over

THREE African wars moved closer to resolution last week, in southern Sudan, Senegal and northern Uganda. In Uganda, alas, celebrations proved premature. No sooner had the government proclaimed that a ceasefire agreement was imminent than hostilities resumed. But the other pacts look more promising, and two out of three isn't bad.

Sudan's war is the biggest of the three, having lasted since 1983 and cost some 2m lives. On December 31st, after three years of talks, Sudan's government and southern rebels signed a “permanent ceasefire” in the Kenyan town of Naivasha. If all goes to plan, the war will officially end on January 9th. The separate war in Darfur, to the west, will doubtless continue, however.

After long oppression by northern Arab Muslims, most southerners, who are black and mostly non-Muslim, want to secede. The deal should give them that option, after a referendum in 2011. Until then, John Garang, the leader of the main southern rebel group, the Sudan People's Liberation Army (SPLA), will be vice-president, and his lieutenants will sit with their former foes in a new parliament. There will be a separate assembly in the south, and Sudan's oil revenues will be evenly split.

Plenty of hazards lie ahead. Past governments were quick to renege on a deal ending the last north-south war from 1956 to 1972, while the present lot have often broken their word in Darfur. The government would hate to let the south secede but is also unwilling to annoy the United States, which has pushed hard for peace and southern self-determination.

Hardliners within the government feel they have made too many concessions; rumours of coup plots abound in Khartoum, the capital. Mr Garang, meanwhile, faces opposition from those within his own ranks who still think the war can be won on the battlefield. There have been moves within the SPLA to topple Mr Garang and replace him with his deputy, Salva Kiir. He is not as popular as he once was; some regard him as a sell-out, while others deplore his autocratic style and favouritism towards members of his own sub-clan.

If peace is to hold, the SPLA must learn how to govern as well as fight. The group stands to get $50m a month in foreign aid, but has no tradition of spending money accountably. One senior SPLA official quit in October after failing to introduce the concept into the group's draft constitution.

Meanwhile, more than 20 government-backed militias in the south are so far excluded from the deal. They must join either the government or the SPLA, or be disarmed by a UN peacekeeping force. Pessimists note that a similar UN demobilisation programme in Congo has failed, and that if the militias unite, they would pose a grave threat to the SPLA.

“Victory over death”

Senegal's war is a more modest affair. For the past 22 years, insurgents have been fighting for autonomy for a sliver of land called Casamance, a largely Christian and animist chunk of a Muslim-dominated state. It has not been the bloodiest of insurrections: the death toll is in the hundreds rather than millions. But it has scared the tourists away from Casamance's immaculate white beaches and marred the country's otherwise admirable reputation for stability. At times, the fighting has forced thousands to flee their homes, and landmines have been scattered across a region that used to be Senegal's bread basket, putting orchards of mangoes, cashews and oil palms out of bounds.

Senegal's president, Abdoulaye Wade, came to power in 2000 determined to end the conflict. He was helped by a change of regime in neighbouring Guinea-Bissau, which expelled the Casamance rebels from their rear bases there, and by a feeling of exhaustion on both sides. In negotiations that culminated in a formal peace agreement on December 30th, he dangled the lure of more money from the centre to revive Casamance's moribund economy.

Risks remain. The rebels have yet to hand in their guns, and though their ageing white-robed leader, Diamacoune Senghor, signed the deal, it is unclear how much control he has over his fractious followers. Peace pacts for Casamance have failed before, notably in 1991 and 2001. But the deal brought cheering crowds onto the streets of Ziguinchor, Casamance's main town, and inspired jubilant headlines in Dakar, Senegal's capital. One paper went so far as to claim “Victory over Death”.

A false prophecy of peace

The civil war in northern Uganda has been nasty, brutish and long. For 18 years, Joseph Kony, a warlord who thinks he is the Messiah, has been trying to turn the country into his personal fief, to be ruled according to the ten commandments. His Lord's Resistance Army (LRA) has kidnapped and enslaved thousands of children, using the girls as concubines and training the boys to become unflinching killers. About 1.6m northern Ugandans are now too scared to sleep in their homes.

Last week, the government met some LRA leaders and announced that it expected to sign a ceasefire on December 31st. But then the LRA allegedly ambushed an army unit. Uganda's president, Yoweri Museveni, vowed to go back to war. He said he was prepared to continue with negotiations, but only outside Uganda. Meanwhile, he said, his army would crush the rebels at home.

The mood in the north is deflated. Drivers in Gulu, the main town, cannot help noticing columns of “night commuters”—people who trudge into town each night for fear that if they stay at home, they will be murdered or abducted. Since the town has no lights, one must drive slowly to avoid knocking them over. Many are sad and angry. “Everybody was looking forward to an incredible new year, but it wasn't to be,” says Denis Okello, a local radio journalist.

Virtually everyone hates the LRA, even those who share its leader's Acholi ethnicity. But they wonder why the government gave it so little time—only a couple of days—to respond to its offer of a ceasefire. Some locals suspect Mr Museveni, who enjoys little support in the north, of allowing the war to drag on in order to keep the north marginalised.

Foreign donors are also showing signs of impatience. The European Union's ambassador, Sigurd Illing, has hinted that the army may be prolonging the war because so many officers are profiteering from it. The government denies it. Ruhakana Rugunda, who heads the government's negotiating team, insists that the two sides are still in indirect contact. “People should realise it's a question of delay, not an abortion of the peace process,” he says.

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South Africa

Fewer guns, please

Jan 6th 2005 | JOHANNESBURG
From The Economist print edition

Tougher rules may reduce violent crime

Get article background

ZAKHE ZONDO, a community leader in Alexandra, a Johannesburg township, tried to stop a row between two drinkers in a shebeen last month. For his pains, one shot him dead, then killed the other drinker and fled. It was typical of the 20,000-odd violent killings in South Africa every year. A few days later three more young men were shot dead during a petty tussle on a beach near Cape Town. At weekends and holidays, stray bullets whiz as often as fireworks. On average, two South African children die every day from gunshot wounds.

Though South Africa's homicide rate is dropping slowly, it may still be the world's highest (except, perhaps, for those involved in civil wars). Easily available guns, used in roughly half of all murders, are increasingly popular. Some 200 policemen are killed every year, mostly with pistols (often their own). As Mr Zondo found, pub brawls quickly become fatal.

Too rarely do the police catch the crooks: it was typical that no witnesses in the busy shebeen would talk about Mr Zondo's death. So the government has launched a campaign to rid the country of “surplus” weapons. Under a three-month amnesty, which ends in late March, police stations will receive unregistered guns, with no questions asked, and destroy them. The police are also setting up road blocks to check cars and buses for illicit firearms. The crackdown has its own risks: one search led recently to a fatal shoot-out near *The Economist*'s Johannesburg office.

A new firearms law also makes it harder to own a weapon legally. Gun-lovers grumble that “draconian” controls will leave innocent people unarmed and vulnerable. But tighter rules would help. Some 4.5m guns are registered in private hands; stored carelessly, many are easy pickings for robbers. Between 1994 and 2001, owners reported 184,000 guns lost or stolen; barely half were recovered, many only after being used in a crime. And accidents often happen. Last year a local rugby hero shot dead his teenage daughter, mistaking her for a car thief whom he thought it fine to kill.

The tighter rules might, at first, push more people to buy illegal guns. Owners must now prove they can store and use guns responsibly, and explain to the police why they need a weapon for self-defence. Very few new licences are being issued; legitimate sales are slumping. But even if demand for black-market guns rises, lobby groups like Gun-Free South Africa say the supply will eventually decline, so pushing up prices. Then fewer people may take them to the pub.

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Central Europe

Reaping the European Union harvest

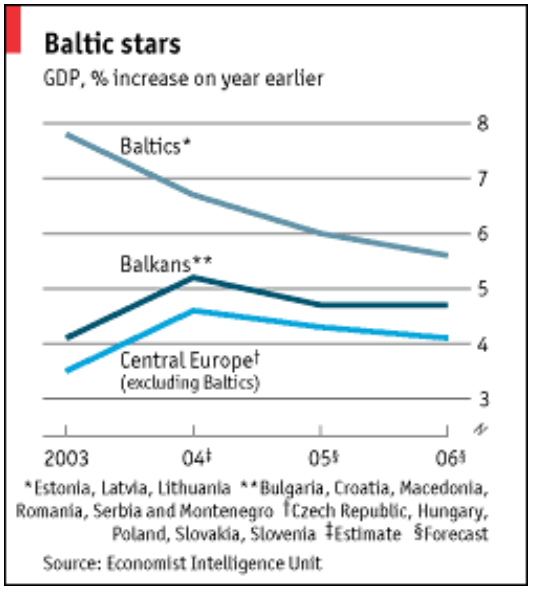
Jan 6th 2005 | RIGA
From The Economist print edition

How the new central European members learnt to stop worrying and love the European Union

AFTER grumbling furiously about dangers to their sovereignty and their social values when they joined the European Union in May, Poles are discovering themselves now to be among the Union's most loyal citizens. Some three-quarters say they are happy with EU membership—and no wonder. In its first eight months of membership Poland got some €2.5 billion ($3.4 billion) from the EU budget, or roughly twice what it paid in, according to the newspaper *Rzeczpospolita*. Rural incomes have risen by one-third for small farmers and two-thirds for big ones, reversing eight years of stagnation and decline, thanks to munificent EU subsidies and an influx of foreign buyers offering high prices for Polish meat and fruit.

Poland's total exports rose by more than 30% in the first nine months of 2004, helped by the abolition of customs formalities. EU rules have opened the skies to budget airlines, boosting tourist numbers by 20% last year. Higher-than-expected tax revenues have meant lower-than-expected budget deficits, not only in Poland but also in the Czech Republic and Hungary—although the EU says that Hungary is still doing too little to balance its books.

The Polish economy was particularly strong in 2004, because it was recovering from a recession exacerbated by bad government policies. But almost everywhere in central Europe, the first eight months of EU membership have been good for business. In Poland, the Czech Republic, Hungary, Slovakia and Slovenia, growth averaged 4.6% in 2004, up from 3.5% in 2003, according to the Economist Intelligence Unit, a sister company of *The Economist* (see chart). The three Baltic countries, Estonia, Latvia and Lithuania, with their less regulated economies, grew even faster, at 6.7% in 2004, though this was still slower than in 2003.



For all of the new EU member countries, the key to growth has been their labour costs, which are far below those of their main export markets in the 15 existing members, especially Germany. Export growth declined during the year, but economies in the "new Europe" still did almost embarrassingly better than those in the old. The euro-area economies grew by 1.8% year-on-year in the third quarter of 2004, but the worst-performing economy in central Europe—the Czech Republic's—grew almost twice as fast.

Nor is it economic gains alone that have made the new members of the EU feel happier. Poland's president, Aleksander Kwasniewski, and his Lithuanian counterpart, Valdas Adamkus, wielded far more clout as leaders of full EU member countries when they waded into the chaos of Ukraine's disputed presidential election between October

and December, urging the government to overturn a first rigged result in favour of a pro-Russian candidate, Victor Yanukovich, and to allow the re-run that was won by a pro-western candidate, Victor Yushchenko. After the Ukraine showdown, the central Europeans may also find it easier to push the EU's foreign policy in two directions which have long preoccupied them. They want to raise the possibility of future EU membership for Ukraine, Moldova and—if it can somehow ditch its dictator, Alexander Lukashenka—even for Belarus. And they want to see the EU treat Russia with maximum caution.

Now that they have tasted the EU's attractions, central Europeans are much less likely than once seemed possible to revolt against the draft EU constitution. Their earlier worry, that the EU was moving the goalposts before they had even got on to the playing-field, is dissipating. Lithuania and Hungary have already ratified the constitution, becoming the first EU countries to do so, by parliamentary votes. Poland still has a referendum pencilled in for this autumn, or even next year, but a yes vote looks increasingly likely.

The trickiest case may be that of the Czech Republic, where the two main opposition parties, the Civic Democrats and the Communists, both have strong Eurosceptic factions. Vaclav Havel, the Czech Republic's first post-communist president, argued this week for ratifying the constitution by parliamentary vote, on the grounds that the public had already made an open-ended commitment in 2003 when they voted to join. But the Czech prime minister, Stanislav Gross, is said to prefer a referendum at the same time as the general election, which is due to take place in June 2006, although his fragile coalition government may fall sooner.

All that said, the increasing EU-friendliness of the new members does not necessarily mean that their relations with the more defensive older members, such as France and Germany, will improve greatly. Indeed, they may get worse, especially if the new members go further in cutting their taxes to stimulate growth. France and Germany were already complaining loudly last year that excessively low taxes in central Europe were sucking investment and jobs out of western Europe. They, and Belgium, have questioned why the EU should give regional assistance to countries that seemingly choose to collect very little in taxes.

That last argument will now be easier to puncture. Slovakia set the regional benchmark last year with a 19% flat rate for income tax, corporate tax and VAT. But it has turned out to be a good way of raising money, as well as a brilliant advertisement for Slovakia's business climate. The government had braced itself for a fall in overall tax revenues in 2004, but it reported happily this week that that they had in fact shown a modest rise.

An outcome like this can only encourage Civic Platform, a conservative party that looks likely to win power after Poland's elections this year and has been toying with proposing a 15% flat rate for the same three main taxes. The Czech Republic's ruling socialists are also looking for ways to cut payroll taxes and so reduce labour costs. Old Europe is being forced to respond: Austria, which borders Slovakia, has cut its corporate-tax rate to 25% in 2005 from 34% in 2004.

The competition can only get tougher. Romania, which is due to join the EU in 2007, has just introduced a 16% flat rate for income and corporate taxes, and its labour costs are far lower even than Slovakia's or Poland's. Looming further down the road is Turkey, which could carpet all Europe with low-paid workers from Anatolia. For all the countries of Europe, in short, enlargement is proving to be less a sudden shock than a long and salutary squeeze that should help to force them to become more competitive.

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France and the European Union

Referendum troubles

Jan 6th 2005 | PARIS
From The Economist print edition

Jacques Chirac faces a testing vote on the EU constitution in the early summer

Get article background

THE president had at long last announced that there would be a referendum to approve the next stage of European integration. A founding member of the European project, France looked certain to say yes. Opinion polls showed that as many as 65% were in favour. By polling day, however, much of that support had evaporated: only 51% voted yes.

The year was 1992, the referendum was on the Maastricht treaty, and the president was François Mitterrand. Thirteen years on, President Jacques Chirac is all too mindful of the historical precedent. Having declared last July that he would hold a referendum in the second half of 2005 on the European Union's draft constitution, he has now brought the date forward. The vote will take place “before the summer”, he declared in his televised new year's address. This probably means early June.

Shortening the campaign makes sense. Mr Chirac wants to take advantage of the momentum created after the opposition Socialist Party voted decisively in December to back the text. Polls suggest that French voters will back the constitution by a comfortable majority. But the collapse of support for the Maastricht treaty between the announcement of a referendum, in June 1992, and the actual vote in September unsettles officials. Already, according to polls by Ipsos, French support for the constitution has slipped from 64% last September to 57% in December.

In some ways, the government's edginess about the outcome is odd. The French have a strong Europhile tradition. With the Socialists now officially on board, no big mainstream party is urging a No vote. Even Jean-Marie Le Pen, the Eurosceptic leader of the far-right National Front, has failed to make much noise. Yet worries remain. Disgruntlement with Mr Mitterrand partly explained the narrow squeak in 1992. Today, too, Mr Chirac's popularity is low, and his centre-right party was trounced in last year's regional and European elections. Above all, one troublesome issue still hangs over the referendum: Turkey.

Since EU leaders agreed in December to begin membership negotiations with Turkey, the French political row over the possibility of ever admitting this big, poor and Muslim country has resumed. Mr Chirac has long been an advocate of admitting Turkey, mainly for strategic reasons. But even with Michel Barnier, his foreign minister, and Dominique de Villepin, his interior minister, in agreement, he is still in the minority. His prime minister, Jean-Pierre Raffarin, is against. So is Nicolas Sarkozy, the new head of his UMP party, along with most UMP members of parliament, and a majority of the French public, according to the polls. Mindful of this hostility, even Mr Chirac has begun to talk more cautiously about when Turkey might be ready.

Political exasperation over Mr Chirac's enthusiasm for Turkish membership is increasing. A former president, Valéry Giscard d'Estaing, who presided over the convention that drafted the EU constitution, told Europe-1 radio that

France needed to clarify its position on Turkey before the referendum. “We need one rule for the country,” he said, in a thinly veiled attack on Mr Chirac, “and not just the personal commitment of such and such a leader.” François Bayrou, another pro-European politician who is against Turkish entry, enjoyed a popularity leap of 11 points in January, according to TNS-Sofres, after making noisy objections to Turkish admission.

Mr Chirac is now trying to sterilise the referendum on the constitution by removing any traces of the Turkish question. He has already promised a separate referendum on Turkish entry—when it is imminent, in 10-15 years' time. This week, his cabinet approved a change to the constitution that will oblige France to hold a referendum on any future expansion of the EU. His success in persuading French voters that the two questions are unrelated may well determine whether their enthusiasm for the EU constitution lasts from now until polling day.

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German celebrity politics

Of dogs, orphans and gays

Jan 6th 2005 | BERLIN
From The Economist print edition

A sign that the campaign for the 2006 elections has already begun

IF THERE were a prize for most inventive first lady, Doris Schröder-Köpf, wife of Germany's chancellor, would surely win. She has designed a line of 44 dog accessories, including chewing bones, dog-food and shampoo, all on offer in a drugstore chain. Ms Schröder-Köpf even provided her own model: Holly, the first family's border terrier. This may show that German politics is going to the dogs. A kinder interpretation is that the campaign for the federal election in September 2006 has begun.

“Tabloids and telly” has long been one of Chancellor Gerhard Schröder's political mantras. Recently, he has made ample use of both to present himself as an enthusiastic father. Last summer, he adopted a three-year-old orphan from Russia. Although he is keeping Viktoria away from the public, he cannot stop talking about her. Everybody “with space in heart and home” should adopt a child, he said on one talk-show. “There are many children to whom one can offer a better future.” And while the Schröders hit the headlines with dogs and orphans, the (Green) foreign minister, Joschka Fischer, is doing so with a new, younger girlfriend. Last November, he introduced her to the public by taking her to Berlin's press gala, which got him on the front page of *Bild*, Germany's leading tabloid. “He always gets the most beautiful women,” it complained.

When it comes to feeding the media, opposition leaders seem, in contrast, more like amateurs. For most of her tenure as leader of the Christian Democrats, Angela Merkel has refused to talk about her private life, because it is nobody's business and her husband is publicity-shy. To celebrate her 50th birthday last July, she invited a brain scientist to give a speech, followed by music performed by a shanty band from Rügen, a peninsula in her constituency.

Yet, realising that such reticence could be a handicap, she has started to become more open. At her party's annual congress in December, she talked a lot about her youth in eastern Germany. She has also given interviews answering such questions as “What kind of feelings does Germany evoke for you?”. Her (perhaps only half-serious) answer: “I think about tightly sealed windows. There is no other country that can build such tightly sealed and beautiful windows.”

Yet it is Guido Westerwelle, leader of the Free Democrats and Ms Merkel's most likely coalition partner, for whom being more personal has proved hardest. When he outed himself as gay (at Ms Merkel's birthday party, of all occasions, by showing up with his partner), he was criticised for exploiting his sexual orientation for political ends. What is more, being gay could still lose votes from some conservatives.

If the candidates' private lives play a big role in the 2006 elections, Ms Merkel and Mr Westerwelle may have a hard time winning. Already, Mr Schröder has countered Ms Merkel's personal history by helping a magazine to publish his own, emphasising his humble roots. Perhaps more serious campaign issues will emerge. It would hardly match the depth of Germany's problems if Ms Merkel's husband, a chemistry professor, were to create a line of perfumes, or Mr Westerwelle's partner, an organiser of sports events, a collection of riding clothes.

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Italy's opposition

Disunited, disheartened

Jan 6th 2005 | ROME
From The Economist print edition

An opposition struggling to maintain a united front

Get article background

Reuters

Prodi's unhappy Christmas

BY HIS own account, Romano Prodi, former president of the European Commission, spent his Christmas holidays considering his future as unofficial leader of the opposition to Silvio Berlusconi's centre-right government. As well he might. For, barely a month after Mr Prodi's return to Italian domestic politics, the centre-left is in a sorrier mess than ever.

Its next big challenge—and perhaps its last big opportunity to sell itself to voters before the parliamentary elections that are due in 2006—will come in April when local elections are to be held in 14 of Italy's 20 regions. Yet the parties of the centre and left, which are nominally all part of a grand democratic alliance under Mr Prodi's leadership, will now go into the April elections as competitors, not allies.

That is because, just before Christmas, talks to try to agree to common lists of candidates ran aground thanks to the misgivings of the second-biggest opposition group, the Margherita (Daisy) party. Its leaders were disappointed by the outcome of the European elections last year, when the Margherita ran alongside three other parties, including the bigger Democrats of the Left. They concluded that the Margherita could win more votes by standing alone. They also hope to demonstrate their party's popularity—and thus its importance to the centre-left alliance—before talks start on which candidate should contest which seat in the general election.

Seven days later, the centre-left suffered another blow when a smaller party, the Democratic Union for Europe (known as Udeur), voted to leave the alliance altogether and put up its own candidates, in both the regional and general elections. Once again, the issue was one of relative weight. The Udeur is plumb in the centre of Italian politics, so its leader, Clemente Mastella, who was a minister in Mr Berlusconi's first government in 1994, can credibly offer its support to right or left. Since the Udeur's voters are concentrated in the south, where electoral races are closer than in the north, it enjoys a potential influence out of all proportion to its numbers in parliament. On the basis of last year's European election results, *Il Sole-24 Ore*, a financial daily, has calculated that the Udeur, which has only seven seats in the lower house, could cost the opposition 27 seats if it runs alone and 41 if it stands with the Berlusconi coalition.

“We may be little, but we have the ambition to become decisive,” Mr Mastella declared recently. Many in opposition, though, believe that he will return once he has been promised, say, a seat in cabinet. But that would do little to detract from the significance of his desertion. Taken together with the Margherita's backsliding, it has confirmed that Mr Prodi is proving quite unable to persuade his fellow opposition leaders that they must stay united if they are to win power under a system that favours big blocks.

This is not all his fault. Italy's electoral system, while encouraging big alliances, also gives disproportionate weight to their smaller components. Roughly a quarter of the country's lawmakers are chosen by proportional representation, which tends to boost smaller parties. And there is no threshold for entry into parliament, as there is in Germany, where parties need to win 5% of the vote before they get any seats. So a group that is a minnow in the Italian parliament can become a very big fish by realigning, or threatening to realign, at election time. The temptation to do this is correspondingly enormous.

Whether it is wise to succumb to it is quite another matter, especially if the party concerned comes from the centre-left. Polls show that the opposition's keenest supporters are overwhelmingly in favour of a unified front. It is reasonable to assume that some of them will punish disunity with abstention. And the centre-left cannot afford that.

Il Sole-24 Ore's most critical finding was that, if the votes cast in last June's European election, which marked a low point in the Berlusconi government's fortunes, were cast the same way at a general election, the opposition would still lose. Its leaders are scheming and manoeuvring for rewards that they have yet to earn. They may never do so if they continue to be disunited. And they may also have to start considering if they have any alternatives to Mr Prodi as their champion.

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Russia

The outspoken silenced

Jan 6th 2005
From The Economist print edition

Marginalising one of the few liberals left in the Kremlin

AFP

Putin (right) smirks but sacks as well

MEDIEVAL kings used to keep licensed jesters, whose function was to utter uncomfortable truths. Just so President Vladimir Putin has, since 2000, had at his side Andrei Illarionov, a talented free-market economist, as his top economic adviser. Until this week, he was also Mr Putin's personal representative ("sherpa") for G8 summit preparations. Now he has been sacked from this second role, and he seems likely to be further marginalised in his first position as well.

Mr Illarionov has never been shy of making provocative comments, not least to foreign journalists. He hates the Kyoto Protocol on climate change, which prescribes cuts in greenhouse-gas emissions: he once said that it "can generally be compared to fascism." In a recent interview with *The Economist*, he insisted that it was theoretically possible for Russia's GDP to double within ten years, Mr Putin's declared goal, noting that other oil producers had managed it in the past. But he added that, now that Russia had ratified Kyoto (which he calls the worst decision of 2004), it was no longer practically possible. He also said that, whereas in the early Putin years the government's economic policies had contributed positively to growth, they were now contributing negatively. In particular, he criticised the government's long campaign against Yukos, which he praised as the best oil company in Russia.

Last week he took this criticism a stage further, saying that the forced sale of Yukos's oil-producing arm, Yuganskneftegaz, to Rosneft, a state-owned oil firm, constituted "expropriation of private property" and should take the prize for the "swindle of the year". He added the broader charge that Russia had shifted, regrettably, to "an interventionist model of economic development, with...extremely incompetent intervention in economic life by state officials." Yet even these comments might have been forgiven by the Kremlin, as they merely enlarge on things the maverick economist has said before.

What was new was Mr Illarionov's verdict on Ukraine. He openly welcomed the orange revolution that has led, eventually, to the election of Victor Yushchenko as Ukraine's president. And he added a warning that Russia might itself be heading for a similar revolution, thanks to what he called the "ongoing destruction...of the whole range of civic institutions". He cited as examples of this destruction the mass media and Russia's democratic institutions. Even a licensed jester cannot, it seems, be permitted to utter such uncomfortable political truths.

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Charlemagne

The hour of mighty Luxembourg

Jan 6th 2005
From The Economist print edition

The European Union presidency passes to its smallest member

A FAINT absurdity hangs in the air whenever the Grand Duchy of Luxembourg takes on the rotating presidency of the European Union. Now that the EU has enlarged to 25 countries, with a total population of 455m, it seems more ridiculous than ever that Luxembourg—total population 451,600, of whom only 277,400 are citizens—should be charged with running its affairs. If the presidency were purely honorific, the prospect of Luxembourg taking over might not be so striking. But it is in fact a job with increasingly onerous responsibilities. During the six months that a country holds the presidency, its ministers chair all EU meetings and broker all deals to keep the show going. The presidency shapes the agenda and represents the EU to the world.

Thus, when President George Bush visits Brussels next month, his counterpart will be Jean-Claude Juncker, prime minister of Luxembourg. It is as if the United States were to decree that, for the next six months, all foreign leaders would have to deal with the mayor of Fresno, California. Understandably, foreigners find meeting EU "presidents" from tiny countries baffling—particularly when the identity and nationality of the president changes every six months. During a previous Luxembourg presidency, Bill Clinton was irritated that the two most senior people he met at the EU both hailed from Luxembourg: at the time, the president of the European Commission, Jacques Santer, was also a Luxembourger. The problem of having Luxembourg in charge can seem most acute at times of international crisis. The lameness of the EU response to the outbreak of fighting in the Balkans in 1991 was highlighted when it was left to Jacques Poos, foreign minister of Luxembourg, to make the impotent claim that this was "the hour of Europe".

To be fair, the Luxembourgers have some compensating advantages. As founder members of the European club, they have had plenty of practice in the chair. The official literature promoting their presidency claims that their chief national characteristic is "an almost obsessive search for consensus", as well as noting that "a touch of paradox characterises the local gastronomy". The ability to find a compromise, even a paradoxical one, is essential to steering the EU. Luxembourg's role of honest broker is enhanced by the fact that it has few national interests, save for bank secrecy, to protect. Patriots point out that Luxembourg has been building Europe for decades. It has provided two presidents of the European Commission. And Pierre Werner, a former prime minister of the Grand Duchy, wrote the first report proposing European monetary union.

Jean-Claude Juncker, the current prime minister, is in the classic mould of the Luxembourg fixer. A man with a magnificently old European attitude to the consumption of alcohol and cigarettes, he is never happier than when locked in a marathon European negotiation. His feel for how the EU runs, his close relationship with France and Germany, and his linguistic expertise all made him briefly a front-runner for the presidency of the commission when the job came up last year.

But Mr Juncker and the tiny team around him will carry a huge burden. He is not only prime minister, but also finance minister, which means that he will have to chair European summits, EU finance ministers' meetings and the euro group of single-currency members. Mr Juncker's colleagues must also juggle a multitude of briefs. Fernand Boden, for example, is minister for agriculture, viticulture, rural development, tourism, housing and the middle classes. (Ultra-bourgeois Luxembourg has no ministry for the working classes.)

Mr Juncker says that his three priorities will be “the Lisbon process” of economic reform; changing the discredited “stability and growth pact”, which sets budgetary rules for euro members; and reaching agreement on the EU budget for 2007-13. This third challenge will be by far the most difficult, since the issues involved—who pays and who receives—cannot be fudged. The Germans, the traditional paymasters of the EU, insist that they can no longer bear this burden. Together with five other net contributors, including Britain and France, they are insisting that the EU budget must be restricted to 1% of combined GDP. The European Commission responds that an enlarged EU needs an enlarged budget, so it wants the limit kept at 1.27%. The difference could amount to €27 billion ($36 billion) a year.

Besides the overall size of the budget, there are even bigger issues to be settled over its distribution. The Spanish and the Poles have already had a stand-up row at a meeting of EU ambassadors over the allocation of regional aid. The French, meanwhile, miss no opportunity to snipe at the “British cheque”: a rebate on Britain's contribution negotiated by Margaret Thatcher in the 1980s. The British fire back about the outrages of EU spending on agriculture, which benefits France above all. Sorting this mess out in six months would take a diplomatic genius: it is not likely to happen on time.

Constitutional nightmares

Mr Juncker also faces the discouraging possibility that his presidency could coincide with the rejection of the painfully negotiated EU constitution, in a referendum held somewhere in the EU. Spain, France and the Netherlands are all likely to vote in the next six months; Luxembourg itself may follow them. The fact that the constitution would actually abolish the EU's rotating presidency—and with it, Luxembourg's occasional chances to run Europe—will not prevent Mr Juncker from campaigning for a yes vote. Luxembourgers have scant resources to deal with the crisis that a no vote would provoke, although they do have a long historical memory. In a potted history of Luxembourg presidencies, Mr Juncker's team recall the fraught year of 1980, when Mrs Thatcher was demanding her money back, France was opposing any further enlargement of the EU and “an air of gloom and pessimism predominated.” Some things never change.

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Drink and disorder

Vikings in the piazza

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Opinion is turning against Britain's newly liberal drink-licensing laws

THE after-effects of an alcoholic session are rarely pleasant, but few hangovers are as painful and long lasting as the one now afflicting the British government. Through the Licensing Act, it is about to sweep away a clutch of antiquated codes that restricted when and where drinking dens can open. That seemed like a good idea when the reforms were first mooted, in the high-spirited era following the 1997 elections. But increasingly loud opposition from the police (who used to support the reforms), doctors and the media is causing headaches all round.

Britain's cities are already among the booziest in the world, and the worry is that they will become more alcohol-sodden once the old restrictions are done away with. The new act addresses some fears by giving local authorities more powers to move against troublesome pubs. But as Andrew McNeill, director of the Institute for Alcohol Studies, an independent think-tank, puts it, “It's not that the Pig & Whistle is badly managed. The problem is that there are 40 Pig & Whistles in a tiny area.”

Drink has become more of a problem partly because Britons are drinking more. The average adult consumed 11.2 litres of pure alcohol last year—12% more than when Labour came to power, and more than twice as much as in the middle of the 20th century. While most Europeans have cut back in recent years and Americans continue in their moderate ways, the British and Irish are both on seemingly unstoppable benders.

But the real problem is the way Britons drink. Like Scandinavians, they like to get very drunk, but their drinking habits are as sociable as more moderate Mediterranean tipplers. British institutions such as the round and the pub crawl encourage group boozing and clusters of outlets—a trend that has accelerated since the early 1990s as a result of more liberal licensing. The hope was that allowing people to drink when and where they want would encourage self-restraint. The effect so far has been akin to letting Vikings loose in the piazza.

Assaults by strangers—more than half of whom are drunk at the time, according to victim surveys—are among the few crimes to have increased in recent years (see chart). Noise and disorder seem to be on the rise, too. Town centres have not exactly become no-go areas, as is sometimes claimed. Thanks to booze (and, in the clubs, ecstasy and cocaine), some formerly derelict areas have been rejuvenated. But the externalities are becoming evident. Phil Hadfield, a Durham University sociologist, compares bars to chemical factories that disgorge problems on to the streets for others to deal with.

Thin policing has not helped smooth the transition to 24-hour cities. Nottingham city centre, which can, in theory, accommodate 108,000 drinkers on any given night (up from 67,000 in 1997), is policed by no more than 40 officers. Stephen Green, the chief constable, says his coppers are over-stretched. But, as he points out, it is also a matter of priorities. Thanks in part to government targets, the police have focused much of their attention on crimes such as burglary and street robbery in recent years. When it comes to disorderly drunks, the forces of law and order are mostly comprised of bouncers.

The police used to believe that allowing pubs to open later would solve the problem of drinkers all fighting for cabs at 11 o'clock. They no longer believe it will help, and they may be right about that. The government's guidance to the Licensing Act says that local authorities should not attempt

to engineer staggered closing times, which removes one of the apparent justifications for reform. And later nights will not necessarily mean quieter nights. Pubs will be unlikely to stay open once customers begin to drift homeward. They will close at the optimum time, and as a result, people will still be pushed on to the streets in large numbers.

Attitudes in the more buzzing towns seem to be changing, too. The backlash is most evident in Bath, where Sarah Webb, a Conservative, ran for the council on an explicitly anti-Licensing Act platform in 2003. She not only won, but also defeated a popular nightclub owner in the process. Residents in Westminster and Leeds are also becoming increasingly intolerant.

Opposition to 24-hour licensing is even building in neighbourhoods that owe their vitality almost entirely to the drinks industry. That may seem contradictory, since many urban explorers moved in to converted warehouses in, say, central Manchester because of the nightlife. But residents' growing conservatism is a tribute to the positive as well as the negative effects of the booze culture. “The 24-hour city has sown the seeds of its own destruction,” says Mr McNeill. “People moved in for the nightlife, but then they reached the age of 30 and decided they would like to sleep sometimes.”

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Northern Ireland

A novel solution to a pension problem

Jan 6th 2005 | BELFAST
From The Economist print edition

Why the Belfast bank robbery makes a deal less likely

Get article background

AFTER the last-minute collapse in negotiations over a power-sharing deal in Northern Ireland between the IRA's political wing, Sinn Fein, and the Democratic Unionist Party (DUP) leader, the Reverend Ian Paisley, everybody involved is gearing up to start talking again. In a New Year message, the Northern Ireland secretary, Paul Murphy, talked of the "final few steps" necessary to return devolved power to local politicians. But after the great Belfast bank robbery—the second biggest ever in Britain—that looks optimistic.

Most people think it was the IRA that stole more than £22m ($42m) from Belfast's Northern Bank headquarters, stuffed with pre-Christmas cash, on December 20th. It is believed to have carried out several similar, smaller, robberies in the past few years and is reckoned to be the only organisation capable of planning an operation involving so many people and vehicles with no leak to police. Police say four other paramilitary and criminal gangs are also suspects, but loyalists are known for internecine feuding; dissident republicans are shambolic; both are infiltrated by police informants; and ordinary criminals tend to be leakier than paramilitaries.

Two bank employees' families were held hostage overnight. The hostage-takers were apparently at ease in two primarily Catholic districts more than 30 miles apart. Neither would have been comfortable territory for loyalist paramilitaries. Police searched the best-known republican districts in the aftermath but made no arrests and lost a gun and ammunition to a hostile crowd.

In defence of Mr Murphy's optimism, the DUP has kept uncharacteristically quiet about the IRA's suspected involvement. The most strident comments have come from Mr Paisley's son, not from the leader himself; and even Ian junior's criticism has focused on the police.

If the IRA was responsible, republicans are now not only richer but also penalty-free. Their audacity was startling, if, as seems likely, Sinn Fein politicians were negotiating a return to government while their military wing planned a crime bound if detected to destroy any deal.

The robbery sharpens the worry that the end of republican terrorist activity will not mean the end of IRA criminality. IRA crime continues, and escapes communal opprobrium by selecting its targets carefully. Legitimate front-businesses, diesel-laundering, smuggled drink and cigarettes, and pirated DVDs look like victimless crimes compared with the prostitution, drug-trafficking, extortion and loan-shark rackets preferred by loyalist gangs. Few republican bosses resemble the muscle-bound, medallion-wearing Ulster Defence Association leadership. There is little evidence that republican criminal activity is carried out for personal gain; instead, proceeds once used to buy weapons now flow into the rapidly expanding political machine of Sinn Fein, the only party which operates on both sides of the border.

A police source has suggested that the Belfast bank robbery may have been motivated by the desire to provide a pension fund for redundant gunmen and bombers. That's a nice idea, because it implies that IRA activity is coming

to an end. What worries locals is the reverse: that the IRA's criminal activities will continue in parallel with Sinn Fein's political activities, and the two sustain each other.

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Classical music and social control

Twilight of the yobs

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How classical music helps keep order

THE question of how to control yobbish behaviour troubles many. One increasingly popular solution is classical music, which is apparently painful to teenage ears. Co-op, a chain of grocery stores, is experimenting with playing classical music outside its shops, to stop youths from hanging around and intimidating customers. It seems to work well. Staff have a remote control and “can turn the music on if there's a situation developing and they need to disperse people”, says Steve Broughton of Co-op.

The most extensive use of aural policing so far, though, has been in underground stations. Six stops on the Tyneside Metro currently pump out Haydn and Mozart to deter vandals and loiterers, and the scheme has been so successful that it has spawned imitators. After a pilot at Elm Park station on the London Underground, classical music now fills 30 other stations on the network. The most effective deterrents, according to a spokesman for Transport for London, are anything sung by Pavarotti or written by Mozart.

When selecting a record to drive people away, the key factor, according to Adrian North, a psychologist at Leicester University who researches links between music and behaviour, is its unfamiliarity. When the targets are unused to strings and woodwind, Mozart will be sufficient. But for the more musically literate vandal, an atonal barrage probably works better. Mr North tried tormenting Leicester's students with what he describes as “computer-game music” in the union bar. It cleared the place.

If, however, the aim is not to disperse people but to calm them down, anything unfamiliar or challenging is probably best avoided. At the Royal Bolton Hospital, staff have begun playing classical music in the accident and emergency (A&E) ward, as well as in the eye ward and the main reception area. Janet Hackin, a matron in the A&E ward, says that patients do appear calmer, “rather than running around anxious and bleeding all over the place”. But classical music might not have much effect on the consequences of more liberal licensing laws. “If they're stone drunk and past it then it doesn't have much effect,” confirms Ms Hackin.

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Muslims

Don't point

Jan 6th 2005
From The Economist print edition

A Muslim strategy that dares not speak its name

DOMESTIC Islamist terrorists have not yet launched an attack in Britain, but it may not be through lack of trying. Those responsible for the nation's security claim that five or six plots—some more polished than others—have been thwarted since 2001. That speaks well for the police and intelligence services, but badly for the state of communal relations. There is a growing consensus that police work alone cannot prevent a future attack—that the government also needs to address the sources of Muslim anger.

Fears have intensified recently. While the invasion of Iraq is believed to have interrupted at least one domestic plot by providing an alternative venue for holy war, the general effect has been disastrous. Resentment at the occupation of a Muslim nation, combined with continuing anger over the treatment of co-religionists in Palestine and Chechnya, has convinced many that there is a war against Islam.

More fury is likely to mean more scheming, but how and where? The problem certainly does not lie with Britain's mosques, which are mostly stuffy and conservative. Nor does the danger originate from Islamist groups. The truly worrying face of radical Islam bears little resemblance to members of noisy outfits like Hizb-ut-Tahrir and the currently dormant Al-Muhajiroun. “If they were important, something would have been done about them,” says a Whitehall source.

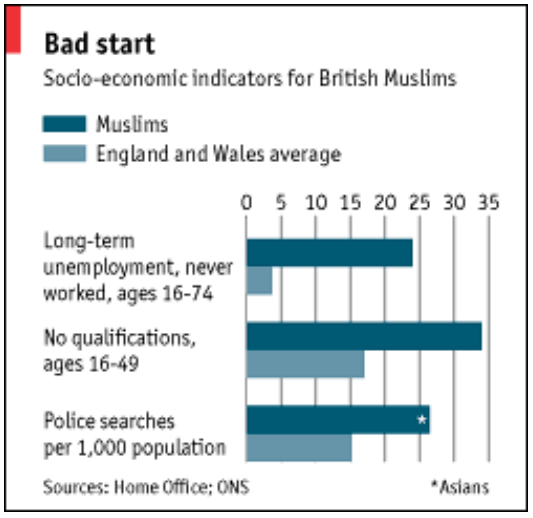
Asking how plotters are made is “like asking why people take up skateboarding,” says the source. But other insiders say one pattern is becoming clear. A group of irreligious young men drops out of mainstream Muslim society, perhaps turning to petty crime. Then an outside agent sells them a new belief system—not the Islam they grew up with, but a religion that is light on theology and heavy on violence. The visitor is likely to have fought in Bosnia or Afghanistan, and may come bearing videos of atrocities from Chechnya. A terrorist cell is born.

Unfortunately, knowing that such a recruitment path exists does not make it easy to close. Agitators are hard to spot, since they are not part of a network. And if every disaffected Muslim were watched, the police and security services would have time for little other work. So the best tactic, goes this argument, is to reduce the number of disaffected Muslims.

That is a tall order, since they have some reason to feel aggrieved. The 2001 census revealed that there were large gaps between Muslims and other Britons on the most important social, educational and economic indicators (see chart). Iqbal Sacranie, the general secretary of the Muslim Council of Britain, describes Muslims as “an underclass that has never had its fair share of the cake”.

Poverty is bad enough without being picked on. Unfortunately, the much-vaunted revival of street policing seems to have meant more hassle for Muslims. Street searches of Asians increased in number from 36,000 four years ago to 62,000 last year; in London and West Yorkshire, where

Muslims are especially concentrated, they more than doubled. Anti-terrorism powers are used clumsily and ineffectively. Of the 3,758 Asians stopped and searched under the Terrorism Act in the past two years, just seven were arrested for linked offences.



Evidence of poverty and discrimination on such a scale might be enough to prod any government into action; coupled with a theory about how terrorists are made, the case becomes overwhelming. So efforts are underway to keep Muslims on-side.

In November, a ban on incitement to religious hatred—which, it is widely assumed, will be used mostly to defend Muslims—was tagged on to a parliamentary bill on policing. Another reform means that foreign imams will be required to pass a basic English test. Both reforms were supported by Muslim organisations and are intended to increase the appeal of mainstream Islam, thereby stiffening resistance to temptation.

Other changes have been quieter. The Foreign Office now regularly talks through Middle East policy with moderate Muslim groups. Uniquely for a non-Muslim country, it also helps out with the annual pilgrimage to Mecca, which is reckoned to be a good way of appealing to the most religious in the community.

The Home Office is investigating the police treatment of Asian Muslims alongside other minority groups. Civil servants are trying to work out why some groups (including, not surprisingly, Pakistanis and Bangladeshis) receive less funding for community projects. In the jargon, policy is being quietly “sensitised”.

What the government has not done is to admit that it is targeting a religious group. Although documents outlining a “Muslim strategy” have circulated around Whitehall, no co-ordinated policy has yet emerged. That is partly because nobody can agree on what form such a strategy should take. Even the tentative outreach efforts that have been attempted so far have caused bust-ups within the Home Office, and between it and the Foreign Office.

But another, more calculated reason for foot-dragging is that an overt Muslim strategy would be inflammatory. Other minorities are likely to feel left out because they are less feared. “Muslims have a good deal to complain about, but no more than do young black men—the worst-treated pariah group of all,” says Shamit Saggar, a political scientist at Sussex University.

Stronger objections would come from poor whites. The suspicion that public funds were flowing to Pakistani Muslims prepared the ground for riots in 2001 and bumped up support for the racist British National Party. Tensions have dissipated since then, but one northern MP believes they would rise again if resources were publicly diverted to Muslims.

A Muslim strategy might even offend Muslims themselves. Not all are poor: Arab, Ismaili and Indian Muslims fare considerably better, on average, than Pakistanis and Bangladeshis. They might prefer to avoid the stigma that would come with a helping hand from the state. And the impoverished might not like the solutions to their problems. It is becoming clear, for example, that a key reason for Muslim poverty is a tradition of stay-at-home women. Ceri Peach, an Oxford University demographer, points out that Muslims who work do much the same jobs as Sikhs. But because wives are less likely to work, they are a lot poorer.

The softly-softly approach does not please advocacy groups like the Islamic Human Rights Commission, which is embarked on a series of reports entitled “British Muslims' Expectations of the Government”. But it is probably the wisest course. Ignoring a social problem is foolish, but singling out a group for special attention may be more dangerous.

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National Health Service

This may hurt

Jan 6th 2005
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A new payments system could have some unpleasant side-effects

Get article background

FIRST the government flung money at the NHS. Then it realised reform was essential and decided to resurrect an internal market within the health service. This year brings a crucial step, dubbed “big bang”, in the reform programme. A new payments system will transform the way hospitals are funded.

At present, the great majority of the 175 trusts that run hospitals providing acute care in England are paid through “block contracts”. Their income essentially reflects previous budgets, adjusted for cost increases. There is no more than a loose link between what a hospital does and what it gets paid.

But from April revenue will be directly related to activity. Every patient will have a price-tag attached to their treatment. The price will be based on average hospital costs across the country for the diagnostic category into which the patient fits. Prices will vary according to the type of case but not according to the hospital: there will be a national tariff. The 300 primary-care trusts that commission health care for their local populations will pay the bills. A central budget will pick up extra costs for hospitals located in expensive areas.

The government hopes that paying by results will prove a powerful lever to get hospitals to do a lot more with all the extra resources they are getting. Higher activity in elective care, such as hip and knee replacements, will be essential if it is to meet its ambitious target of an all-in maximum waiting time of 18 weeks by 2008. The new payments system also underpins the pledge of greater patient choice, since each patient will bring an additional payment for the hospital that is selected.

All very worthy, but could the big bang blow up in the government's face? The NHS is breaking new ground in the scope of its new payments system. Other countries are already using a similar approach but the case-based funding is combined with other streams of revenue, so that it usually accounts for at most half of hospital budgets. In contrast, 80% of a typical NHS hospital's income will be directly based on activity.

Adding to the potency of the reform, nearly half of trusts have costs higher than the national average—generally up to 10% above it. Although hospitals have until 2008 to eliminate this margin, it will be difficult since they will also have to achieve national efficiency gains on top of this. Some trusts may not manage it, and will start losing money.

The new system has already been operating for a few months for 20 trusts with foundation status, which have more autonomy. One—Bradford Teaching Hospitals—is already running big losses. It is expected to incur an annual deficit of £11m on turnover of £210m. Monitor, which regulates foundation trusts, says that much of the problem has arisen because the trust has not been controlling its costs properly. However David Jackson, the trust's chief executive, says the new payments system is partly to blame: “it has created great uncertainty about our income.”

Foundation trusts got their privileged status because they were supposed to be particularly well managed. The hospitals that have not yet been exposed to the new system, in other words, are the worse-managed. There are, consequently, worries about what will happen this year when those organisations feel the impact of market disciplines.

The Audit Commission, which has been investigating how the new system has been working with foundation trusts, says there are other dangers too. Early findings from its study, due to be published in February, suggest that the primary-care trusts that pay for hospital work may be more at risk than the hospitals. That's because hospitals are finding ways of charging them more.

This is most visible in the increase in short-stay emergency admissions. “This is exactly the kind of behaviour you would expect from the new payments system,” says Andy McKeon, managing director of health at the Audit Commission. Short-stay emergency admissions attract higher payments than standard attendances at an A&E department. So now hospitals have a new incentive to increase the number of such admissions and to ensure that they are all counted. That puts up the bills for primary-care trusts.

According to Mr McKeon, “there will be a huge surge in activity and productivity because everyone will code activity more thoroughly.” That will flatter official figures about the performance of the NHS, but the improvement is likely to be largely illusory. And it could produce a financial crisis if the primary-care trusts that pay for hospital activity run out of money.

The new payments system has considerable potential to make the NHS more efficient. But there's also plenty of scope for it to go very wrong.

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Graduate employment prospects

Engineering a shortage

Jan 6th 2005
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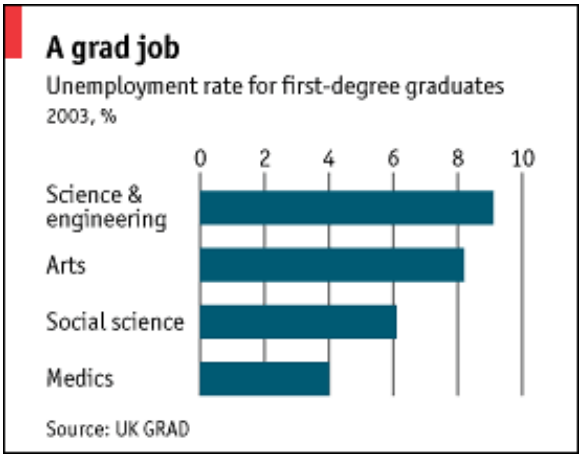
The strange supposed shortage of scientists and engineers



POLITICIANS and businessmen are worried by Britain's shortage of scientists. Industry regularly bemoans the dearth of technically minded employees. Science was a big theme in the chancellor's pre-budget report last month. And it is a favourite subject for Lord Sainsbury, the minister responsible.

But the market demurs. According to a report from UK GRAD, a government-funded group, science and engineering graduates have the highest rate of unemployment, at every level from first degree (see chart) to PhD. And although, when they do find work, their salaries are slightly higher than average, they are rising more slowly than most. The average Briton got a 3.2% wage hike last year, but scientists and engineers had to make do with 2.4%. “It's very difficult to show that there's a shortage from the data,” says Nick Jagger of the Institute for Employment Studies.

What's going on? For engineers, the problem is too much learning. Graduates are plentiful; it is technicians that are in short supply. “We need about 10,000 apprentices a year, but we're only getting 6,000,” says a spokesman for the Engineering Employers' Federation. Pay data backs this up: according to the Engineering Technology Board, salaries for technicians have risen by 15.2% since 2000, compared with 9.5% for chartered engineers.

But the government's determination to push more teenagers through university means that youngsters that might otherwise have left school at 16 and got a vocational qualification are being persuaded to study for degrees instead. Universities are encouraged to offer less rigorous courses, because they are paid according to the number of students they attract and keep.

The result is not too few good-quality graduates but too many poorly-trained ones. Financial services firms in the

City offer big salaries to the brightest, which suggests that Britain has more need of good-quality accountants and derivatives traders than engineering graduates. The large engineering groups cherry-pick the best of the rest, leaving a rump of mediocre, expensively-educated graduates who often end up in jobs that technicians could do just as well.

Scientists' problems are different: rather than too much learning, many of them have the wrong sort. Richard Smith of the Science, Engineering and Manufacturing Technologies Alliance, an employers' organisation, complains that there are too many graduates with degrees in subjects that are popular with students but not with employers. Forensic science is one example. Police dramas have made it a popular undergraduate degree, meaning that universities increasingly offer it at the expense of more rigorous courses like chemistry. There were no forensic science courses offered in Britain in 1990; now there are more than 50. The result is a glut: Mr Smith reckons that there are about 2,000 forensic science students graduating every year, but only 100 jobs for them to fill—and these usually require a post-graduate qualification, not just a first degree.

Government policy plays a part here, too: chemistry and physics are expensive to teach compared with watered-down degrees like forensic science, and the universities get the same amount of money either way. But universities will make money only if they offer courses that are popular with students, who seem content to ignore what the market is telling them. That may be the result of state-funded higher education. If students had to pay the full cost of their courses, then employment prospects might loom larger in their minds when deciding what to study.

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Entrepreneurialism

Geordie tech

Jan 6th 2005
From The Economist print edition

The north-east's propensity for high-technology

THE latest grand building to grace the banks of the Tyne is the Sage Gateshead music centre, a waterfall of glass that opened last month. The name is a thank-you to the Sage Group, for providing £6m of an £11.65m endowment fund intended to prevent the need for any future taxpayer-funded bail-outs of the £70m centre. Sage, one of Britain's biggest software companies, is based in Newcastle, where it employs 1,500 people.

Sage seems to be a big bright spot in an otherwise struggling local economy. Claimant count unemployment of 3.9% is nearly half as high again as the national average, per head gross domestic product is over a fifth lower and fewer new businesses are born in the north-east (23 per 10,000 people compared with 40 per 10,000 Britons in 2003) than in any other part of England. Nor does Newcastle, known more for shipbuilding than for software, sound like the natural home for a high-tech company.

Actually, it is. According to Rebecca Harding of the London Business School, of those firms that have started life in the north-east in the past three years, 20% are using or selling technology which was not available a year ago. In Britain as a whole, the figure is 11%. Only London has a higher rate of tech start-ups than the north-east.

Why? There are four possible reasons. Strangely, the disproportionately large public sector (21% of regional GDP compared with 17% in Britain as a whole) may be one. Though the public sector produces relatively few spin-off companies, those that emerge from hospitals and universities tend to be formed by technologists.

Second, says Paul Benneworth, a regional development researcher at Newcastle University, closures of local and foreign-owned factories have pushed redundant skilled managerial employees into their own ventures. Examples include 12 firms emerging from the closure of a gas engineering research station, and three from Siemens' microchip factory, which shut in 2001.

Third, big consumers of components, such as car and defence equipment manufacturers, have spawned clusters of small- and medium-sized suppliers, whose workers seem particularly prone to starting up on their own. One such firm, Joyce-Loebl, a defence and vehicle instrument-maker, has spun off 45 new firms in half a century.

Fourthly, maybe the north-east is just living up to its past. After all, it spawned George and Robert Stephenson's railway engines, Joseph Swan's electric light bulbs, and Sir Charles Parson's steam turbines and electricity generators.

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Bagehot

Coming to the aid of the party

Jan 6th 2005
From The Economist print edition

The government's aid record is impressive, and so is Benn the Younger, the aid minister

“I DON'T think this is a situation in which the British people need me to articulate what they feel.” Tony Blair's tetchy response to a BBC interviewer demanding to know why he didn't rush back from holiday to take personal charge of the tsunami relief effort showed how much he has changed. This, after all, was the man who felt the nation's pain as it mourned the death of Princess Diana.

Mr Blair knew that he would be damned if he did and damned if he didn't. Those who are now criticising him for misjudging the national mood would have been among the first to have accused him of making political capital from the suffering of victims. Burned by his government's well-earned reputation for spin, Mr Blair pointedly added that actions were preferable to words. He forecast that the government would not be merely matching the £100m ($190m) raised by private donations, but would be spending “hundreds of millions” more as the needs of shattered communities become clearer.

On this at least, Mr Blair should be trusted. Whatever the government's failings in other areas, it deserves some credit for its record on overseas aid. Since 1997, Britain's overseas aid budget has almost doubled in real terms and will reach 0.4% of gross national income this year. An independent panel of government auditors recently declared the Department for International Development (DfID) a model for effective delivery. Among relatively big countries, only France spends a similar amount of its wealth on aid. America managed just 0.15% in 2003. And most experts agree that Britain's aid is of a higher quality—less tied to its commercial and diplomatic interests—than France's.

Mr Blair has said many times that he wants to make the plight of Africa one of the central themes of the chairmanship of the G8 that Britain took over this week. In private, he says that one of the reasons for his support for America over Iraq is the right it has given him to engage George Bush's interest in Africa. As he sees it, the liberal interventionism he is so fond of requires both the hard side of a willingness to use deadly force to remove repellent regimes or end civil wars (as in Sierra Leone) and the soft side of an energetic and well-funded aid operation.

Mr Blair's passion for doing good abroad is not purely altruistic. It also plays well at home. With Labour confused and angry about Iraq and no longer allowed to mention socialism at home, generosity to the world's poorest people is crucial to sustaining the party's sense of its own moral worth. As there is no scope for Mr Blair and Gordon Brown, the chancellor, to squabble over aid policy, their rivalry takes the form of a contest to see which of them can claim to be doing the most. This week, Mr Brown announced a new debt relief plan as if it was his and his alone.

For this reason, whoever happens to be secretary of state for international development is guaranteed not only the unqualified support of both the prime minister and the chancellor but also the affection of the party. Clare Short had it and milked it shamelessly until she exasperated just about everyone with her off-on resignation over Iraq and her poisonously personal campaign to destroy Mr Blair.

Her successor, Hilary Benn, could hardly be more different. Ms Short was dynamic and outspoken, but also short-fused and ill-disciplined. Mr Benn is quiet, hyper-rational and strong on detail. Although far less well-known than heavyweights such as Charles Clarke, Alan Milburn, John Reid and the recently departed David Blunkett, after only 14 months in the job and little more than five years in Parliament he is being talked of in Westminster as a next-but-one party leader.

The most disconcerting thing about Mr Benn is his close resemblance in appearance and mannerisms to his father, Tony. These days, Benn the Elder has acquired the status of lovable old buffer. But at the height of his powers a quarter of a century ago, he was the most hated and feared figure in British politics. Moreover, he is still the central figure in New Labour's demonology—the man whose socialist zeal so convulsed Labour that it lost power for a generation. Although Hilary described himself as “a Benn, not a Bennite”, as a young man he was an enthusiastic supporter of his father's obsessions. But in 1983, in common with hundreds of other Labour candidates, he paid the price as Labour slumped to its heaviest post-war defeat.

The power of being nice

If the Benn name had at first helped his career, it undoubtedly slowed his progress in the years after 1983, even as he moved steadily rightwards. Although never out of politics, it was not until 1999, at the age of 45, that he arrived at Westminster as a bright-eyed Blairite following a by-election in Leeds. After winning golden opinions as a junior minister, first at DfID and then at the Home Office, he nearly came a cropper piloting the Sexual Offences bill (a well-meaning piece of legislation that inadvertently made it a criminal offence for a married couple to have sex in their own garden) through the Commons. That he didn't was largely because of an almost preternatural niceness that charms allies and confounds critics.

Over the next few weeks British television viewers are likely to be seeing a lot of Mr Benn. They will be struck by how pleasant he is and how efficient he seems. Just hearing his calm, earnest voice will make them feel good about themselves, convincing them that their money is in good hands. Mr Benn modestly describes his personal political philosophy as achieving small, mundane things that improve the lives of others.

There are other, bigger, more fearsome beasts than Mr Benn who will fight to succeed Mr Brown (assuming that the crown passes smoothly to him when Mr Blair goes). But do not underestimate the man who has no enemies. That, after all, is how John Major became prime minister.

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The oil industry

Big oil's biggest monster

Jan 6th 2005 | DHAHRAN, QATIF AND RIYADH
From The Economist print edition

Saudi Arabia's Aramco, the world's biggest and most powerful oil firm, has revealed some of its secrets

“ARAMCO is a peculiar company,” says a smiling Abdullah Jumah, the chief executive of Saudi Arabia's state-run oil firm, as he greets a visitor at its stylish modern offices in the country's oil capital, Dhahran. Inside the heavily guarded compound is a tidy community of houses, schools and baseball fields that would do suburban America proud. Foreigners and locals mix freely, and the canteens serve (non-alcoholic) Budweiser beer. Women even drive cars. Suddenly this most secretive of firms is opening up in other ways, too. Having been widely blamed for last year's soaring oil prices, the embattled giant hopes to prove it can deliver on its most important promises—and survive the terrorists who seem bent on destroying it.

Aramco is not publicly listed and avoids debt, so has no need to divulge much to the financial markets. The best outside guess is that it produces 10m barrels per day (bpd) of oil—one-eighth of the world's consumption—with revenues last year of $93 billion. Not only does Aramco sit atop the world's largest reserves by far, it also enjoys the world's lowest discovery and development costs—about 50 cents per barrel, one-tenth or less of what private-sector rivals pay in Russia, the North Sea or the Gulf of Mexico. With at least 260 billion barrels of proved oil reserves left, Aramco is 20 times the size of Exxon Mobil, the largest private-sector oil firm.

Aramco may produce the kingdom's oil, but it is the Saudi government that sets output levels and tries to fix prices through the Organisation of Petroleum Exporting Countries. As oil prices soared to around $55 a barrel late last

year, Aramco was lambasted by foreigners and still draws their ire, even though prices have since slipped by around one-quarter thanks mostly to slowing demand, especially from China. Why should Mr Jumah care what outsiders think, given that his only shareholder is pleased? His face turns serious: “With a quarter of global reserves, Aramco has a huge responsibility to the world.”

The Greenspan of oil

Saudi Arabia, he points out, has often come to the rescue with extra oil whenever there has been a big disruption. For example, its geologists brag that they cranked up output dramatically after the invasion of Iraq, “within 48 hours”. Aramco's big buffer of spare capacity has caused it to be known as the “central bank of oil”. That is why the oil markets were so rattled last year when Aramco appeared troubled in three areas that could interfere with its role as the swing producer. Aramco has now decided to address these concerns and change its secretive culture.

The first worry in the markets is that Aramco may no longer be maintaining its spare capacity. PFC Energy, a consultancy, reckons that global spare capacity fell from a peak of 8.7m bpd in 1985, much of it in Saudi hands, to a wafer-thin 1m bpd or so at the end of the third quarter of last year. The obvious explanation was runaway demand in China and troubles in Iraq, Venezuela and Indonesia. But cynics suspect that the Saudi government has abandoned its policy of keeping lots of spare capacity because of the demonisation of their country in America since September 11th 2001. The Saudis also dislike the recent sharp decline of the dollar, the currency in which oil is priced, and are thus delighted to see oil prices soar.

Ali Naimi, Saudi Arabia's oil minister, rejects such talk, insisting that his country still wants “a fair price” of $32-34 a barrel. (He adds, though, that this is a “moving target”.) He vows that his country will maintain spare capacity of 1.5m-2m bpd. To that end, he explains, Aramco has launched an expansion programme to keep pace with global demand. Outside contractors report a surge in drilling activity, with rig counts likely to rise from 55 to 77. On December 26th, Aramco opened a huge new facility in Qatif capable of processing 800,000 bpd of oil.

Forecasters assume that Aramco will have to double its output in the coming decades to meet expected growth in global demand. Yet some vocal outsiders doubt that it can do so. Led by Matt Simmons, a Texan investment banker, they argue that Saudi oil fields may already be facing technical difficulties. Some 90% of Saudi oil comes from just seven fields whose average age is 45-50 years. Just one, Ghawar, produces a staggering 5m bpd, at least. He claims that academic studies, as well as troubles at fields in neighbouring countries, suggest that Aramco's giant fields may soon go into decline.

As a result of such criticisms, Aramco's technical experts now openly discuss field data previously held secret. Its geologists explain how exactly they intend to maintain output of 15m bpd or higher for 50 years—even without the new oil discoveries that they insist could eventually add another 200 billion barrels of oil reserves. Far from suffering from a greater need for water injection to maintain reservoir pressure, Ghawar appears to be stable, thanks to Aramco's innovative use of technology.

Nansen Saleri, Aramco's head of reservoir management, says that “we've released more data in 2004 than we did in the previous 50 years. On a field-by-field basis, we now release more than the investor-owned companies.” The exception, of course, is Royal Dutch/Shell, which is now having all its field data audited by outsiders in the wake of last year's reserves overbooking scandal. Aramco is extremely unlikely to follow Shell's lead on outside auditors. Mr Jumah deserves credit for opening up the firm, but when asked about outside audits a glint of steel appears in his eyes: “Why should we? We have never failed to deliver a single barrel of oil promised to anyone, anywhere.”

The third worry about Aramco is its potential vulnerability to terrorism. Several unsuccessful attacks last year added a “fear premium” to the oil price, estimated at $7-15 a barrel. Such fears seemed to be waning until a new tape from Osama bin Laden surfaced in December threatening that al-Qaeda will now specifically target Saudi Arabia's oil infrastructure.

According to a new report by Nawaf Obaid, a security expert, and Anthony Cordesman, an American defence guru, Saudi Arabia has improved its security dramatically in the past two years. It spent an estimated $5.5 billion on security in 2003 and over $8 billion last year. “How many oil companies have 5,000 armed men on their payroll?” asks Mr Jumah. That does not even count the official military and counter-intelligence forces working to protect Aramco.

Yet all the hardware and military in the world cannot provide 100% certainty that the nightmare will not come to pass: a disgruntled Shia employee sneaking a “dirty bomb” into Ras Tanura, the world's largest oil-export terminal, or Abqaiq, a vital oil-processing centre.

Even as Mr Obaid recently argued over supper at a panoramic restaurant in the Faisaliah skyscraper in Riyadh that the Saudis had broken the back of the al-Qaeda cell in Saudi Arabia, two car bombs went off within line of sight of the dinner table. Oil prices jumped on cue, then fell again once markets realised the attackers had failed. But if those suicide bombers had struck where Osama bin Laden now says he wants them to, oil prices could surge to $100 a barrel—or even more.

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Natural gas

The rise of big gas

Jan 6th 2005 | DOHA
From The Economist print edition

Qatar is now a global gas powerhouse

FOR a tiny country, Qatar certainly thinks big. In the past few years, its young leaders have propelled it from obscurity to the very top of the global natural gas industry. Qatar can boast of tens of billions of dollars in gas investments by top-tier energy firms ranging from America's Exxon Mobil and Chevron Texaco to Britain's Royal Dutch/Shell and South Africa's Sasol.

Consider the latest piece of audacity. Qatargas, a state-controlled energy firm, and Exxon have just unveiled details of the largest project-finance deal ever done in energy. They have raised $7.6 billion from 57 investors for a new liquefied natural gas (LNG) project. The gas will be frozen in the world's biggest facilities, and shipped to faraway Britain in the world's largest LNG tankers. For punters keen to get in on the action, Qatar Gas Transport (inevitably, the world's biggest LNG shipper) plans the country's largest-ever share flotation on January 16th.

So how did Qatar emerge as a gas powerhouse? It helps that the country claims the world's third-largest gas reserves, including the single-biggest gas field, but that is not the whole story. After all, Qatar has leapfrogged over bigger neighbours such as Saudi Arabia and Iran, which also have lots of gas. The answer, explains Faisal al Suwaidi, chief executive of Qatargas, is the country's “appetite for development”.

Crucial to Qatar's breathtaking success has been its welcome mat for foreign investors. Unlike the Saudis, who have long made life difficult for outsiders hoping to invest in its gas, the Qataris have slashed red tape and offered foreigners the prospect of attractive returns. The latest gas deal represents a vote of confidence in market forces in another way too. LNG deals have historically been seen as so risky that sellers always locked in long-term customers for a decade or two. Qatargas has such faith in Britain's liberalised energy markets that it is forging ahead without signing up specific end-users.

Quite rightly, Mr Suwaidi calls this deal “a turning point for global LNG.” It may even be a step toward the free-market fantasy of a fungible, global spot market for gas akin to the one for oil.

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Tourism and Asia's tsunami

Back to the beach?

Jan 6th 2005
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A quick revival of tourism would help some countries recover

THIS is the time of year when millions of Europeans relax with a glossy travel brochure or, nowadays, surf the internet, to plan and book their summer holidays. It may seem heartless to dream about a sunny beach in the aftermath of the devastation and loss of life caused by the Asian tsunami. But tourism is one of the most important industries in Thailand, Sri Lanka and the Maldives—all badly hit by the huge tsunami—and the return of tourists will make it easier for their battered resorts to recover, at least economically, than poor Aceh, an Indonesian province where few travellers ventured.

AFP

All right for some

The catastrophe is a heavy blow to the region's $100-billion annual tourism business. According to the World Travel and Tourism Council (WTTC), the industry accounts for some 19m jobs in South-East Asia, or 8% of employment. Almost four-fifths of the economy of the 1,190 islands in the Maldives depends on tourism. In 2004, tourism accounted for 12% of GDP in Thailand and 10% in Sri Lanka, according to the WTTC. The region is one of the fastest-growing areas for tourism in the world.

The first reaction of travel firms to the catastrophe was to try to find their travellers and bring them home as soon as possible. TUI, Europe's biggest travel company, found all its clients in the region alive. But Accor, a French hotel chain, was less lucky. Of the 720 guests and staff at its Sofitel in Khao Lak, Thailand, only 450 survived. Travel firms cancelled trips to the affected areas and offered refunds or alternative bookings. Rewe Pauschaltouristik, a German tour operator, has received over 20,000 phone calls from worried customers, said a spokeswoman. About 1,500 cancelled their trips. Some 2,000 shifted to a different location, such as the Caribbean.

Travel firms say hoteliers and local tourism officials are imploring them to send back people as soon as possible. They worry that tourists will stay away from unaffected areas too. Much of Thailand was not hit, though half of the hotels in Phuket have been destroyed. In Sri Lanka two-thirds of hotels south of Colombo were damaged. Perhaps one in seven hotels on the Maldives may have to be rebuilt.

It seems cynical to encourage people to travel, says Stefanie Rother, a spokeswoman at TUI, before adding that it would be terrible if an economic disaster followed the flood. TUI resumed flights to the Maldives on January 1st and plans to recommence flying to Phuket and Sri Lanka in February. Rewe will start flying to Phuket and Sri Lanka in February too, but will not send people to Khao Lak until the end of October. Kuoni, a Swiss tour operator, says it is taking new bookings for the affected regions, but they are, as expected, much lower than before. Last weekend Kuoni sent one group to the Maldives.

The British government is still advising against non-essential travel to Sri Lanka's eastern, southern and south-west coasts or to Thailand's west coast. Most British tour operators are offering clients alternative destinations or a refund on all departures up to January 31st. French tour operators plan to resume sending people on January 16th to some of the areas that were hit. There is no better way to help the people of this region than to go on holiday there, says René-Marc Chikli, head of the French association of tour operators.

How quickly can the region's travel industry get back on its feet? Peter Harbison, boss of the Centre for Asia Pacific Aviation in Sydney, is optimistic. After the terrorist bombing of tourists in Bali in 2002 the region's hotels, airlines and tourism officials started to co-ordinate their recovery efforts. It made more sense for airlines to discount their fares if hotels lowered prices too. This was fine-tuned after the outbreak of SARS in 2003. The area is now used to dealing with “constant shock syndrome”, says Mr Harbison. Before Bali and SARS it was hit by the 1997 Asian financial crisis and then the “haze”—a smog caused by the burning of forests in Indonesia. The region was also hit by the slump in travel after the terrorist attacks on September 11th 2001.

Tourism experts are confident that travel will recover faster from the tsunami than from SARS. Fear of an unknown disease is far tougher to manage than a rare natural disaster, however horrific. Even so, the hardest thing will be to change people's perceptions, says Adrian Mowat, an analyst at J.P. Morgan. A first test of the willingness of people to travel in south-east Asia will be the Chinese New Year in the second week of February—usually one of the region's busiest travel periods. It will be quieter this year, but at least those who do go will be told that they should not feel bad about making the trip.

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Music copyright

Not-so-golden oldies

Jan 6th 2005
From The Economist print edition

Some famous songs are losing their copyright protection

Get article background

“EVERY three months from the beginning of 2008,” says Cliff Richard, who was once Britain's answer to Elvis Presley, “I will lose a song.” The reason is that in most European countries copyright protection on sound recordings lasts for 50 years, and (now) Sir Cliff recorded his first hit single, “Move It”, in 1958. This month, early recordings by Elvis himself started to enter Europe's public domain. Over the next few decades a torrent of the most popular tracks from the Beatles, the Rolling Stones and many other artists will become public property in Europe—to the pleasure of fans and the consternation of the music industry.

One of the big four music firms estimates that about 100m “deep catalogue” (ie, old) albums now sold in Europe each year will have entered the public domain by the end of 2010. Assuming a current wholesale price of $10, that could jeopardise $1 billion of revenues, or about 3% of annual recorded music sales. And that estimate accounts only for songs up to the end of the 1950s. Far more will be at risk as music from the 1960s and 1970s moves out of copyright.

Even once much of the back catalogue has entered the public domain, the big music firms can carry on selling it on CD. They will even benefit from not having to pay anything to the artist or to his estate. They will in many cases still own copyright on the original cover art. But they will face new competition from a host of providers of CDs who may undercut them. And on the internet, public domain music is likely to be free, as much of the copyrighted stuff already is on peer-to-peer networks.

Music executives want the European Commission to protect them from such unwelcome competition by extending the copyright term. Artists have rallied to the cause: U2, Status Quo and Charles Aznavour all want the 50-year limit increased. Many more acts will sign a petition this spring. Sir Cliff has spent hours complaining to the commission that composers of songs get copyright for 70 years after their death: more than performers.

The music industry also points out that America gives artists almost twice as much copyright protection as Europe. America has repeatedly lengthened copyright terms, with the latest reprieve, the Sonny Bono Copyright Term Extension Act of 1998, giving performers protection for 95 years after publication.

Many people believe that America has gone too far in protecting copyright at the expense of the public good, including, it seems, the commission, which said last year that it saw no need to lift its own 50-year limit. Its deadline for proposals on copyright law has slipped from this year to 2006. But governments are likely to weigh in on the issue. France, Italy and Portugal have indicated that they support an extension of the term, and Britain is likely to stick up for its own music major, EMI.

Although artists and their estates want longer copyright, the big music firms would benefit from it the most,

especially in the next couple of decades, says Stephen King, chairman of the Association of United Recording Artists and manager of the Libertines. Back in the 1950s, he says, performers got only one-tenth of the share of royalties that they do now. For years, artists have, with good reason, accused big record labels of ripping them off. Now they have wised up about making deals. The best guarantee of financial security—safer than clinging on to copyright—is hiring a good lawyer early on.

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Mobile devices

The real energy crisis

Jan 6th 2005 | NEW YORK
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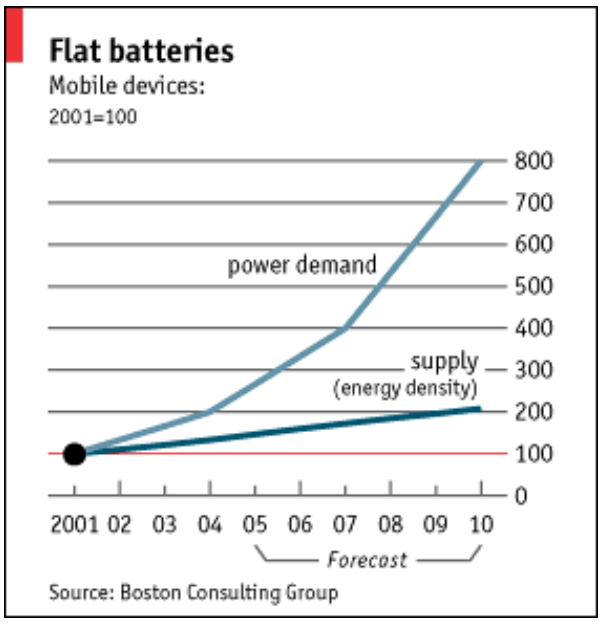
How an old technology is constraining a new one

"SEAMLESS mobility is here," trumpet the latest advertisements from Motorola, one of thousands of consumer-electronics companies that converged on Las Vegas this week for the industry's glitzy annual shindig, the Consumer Electronics Show. Like Motorola, many of these companies will be hoping to persuade the show's 130,000 or so attendees that the combination of faster wireless networks, more powerful microchips and better display technology will usher in a new age of dominance for mobile devices. Yet as such devices—which often combine a phone, camera, music player and personal organiser—become more powerful, they are consuming more power. And that is the industry's dirty little secret: battery technology is not keeping pace.

The news that Matsushita, a Japanese consumer-electronics firm, plans to launch a new sort of disposable battery technology (called Oxyride) in America and Europe illustrates the point. Matsushita's engineers have spent eight years working on their new battery, yet it lasts only 50% longer than an ordinary disposable battery. The technology behind the rechargeable lithium-ion and lithium-polymer batteries that power mobile phones and laptops is not evolving much more speedily. According to unpublished research by the Boston Consulting Group, the amount of energy that a battery can store (its energy density) is growing by 8% a year. Mobile-device power consumption, meanwhile, is growing at more than three times this rate, as backlit colour screens, high-speed wireless networks and more powerful microprocessors draw ever-larger amounts of power.



This growing gap between the supply (energy density) and demand for energy (see chart) is an indicator of the severity of the trade-offs which device-makers and consumers may have to make as battery technology increasingly constrains the evolution of mobile devices. Demand continues to grow rapidly, especially as mobile operators upgrade to new high-speed networks, which require more powerful handsets. Eventually, a new technology, such as miniature fuel cells, may solve the mobile-energy crisis. Until then, consumers will face stark choices.

Some may be willing to recharge their devices more frequently. Battery life has already plummeted for certain devices. Musea, an all-in-one mobile device built to run on NTT DoCoMo's fast, power-hungry third-generation mobile network, advertises just 40 minutes of talk time with its screen fully lit. At airports, business travellers are increasingly to be found squatting beside inconveniently-placed power outlets, desperate to recharge phones and laptops before they board their flight. Some consumers have already learned to avoid power-hungry features such as video calling. Others are opting instead to lug extra battery packs around with them. Alarmingly, the American army's “Future Force Warrior” programme has calculated that the soldier of the future may have to hump around the battlefield batteries weighing 34lb (15kg) to power his high-tech combat kit. That is one feature of the seamlessly mobile future that Motorola—the proud maker of the networked motorbike helmet and snowboarding jacket—will be happy to gloss over.

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Luxury cars

Conspicuous non-consumption

Jan 6th 2005 | DETROIT AND LONDON
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The rich are losing their fondness for being seen in a Rolls or its like

Get article background

THERE will be no shortage of new models at the Detroit motor show, which opens this weekend. Most will be mainstream vehicles, plugging gaps in carmakers' line-ups or updating old models. But there will be few aimed at the very top of the market. That is because the car industry's bet on extreme luxury increasingly looks to have been a losing one.

For years, the market for ultra-luxury cars—those costing upwards of $150,000 (€114,000)—had ticked over at a steady 7,500 sales a year. Then, in the late 1990s, Volkswagen (VW), BMW and Mercedes got interested in it and bet that it could grow to 17,000-20,000 cars a year. Though still a tiny niche compared with the more than 50m cars sold worldwide each year, it would, they hoped, be highly profitable. Bernd Pischetsrieder, VW's boss, imagined a world full of billionaires, with several homes and luxury yachts and plenty left over to lavish on luxurious cars—a group of customers that has indeed proved to be largely imaginary.

Two years ago, DaimlerChrysler, Mercedes's parent, launched the Maybach M62—yours for only $350,000. The German carmaker confidently predicted that it would deliver at least 1,000 of the 6.2-metre M62 and only slightly shorter M57 vehicles a year. One-third would be sold in America and plenty more elsewhere: “oil sheikhs will buy these ten a time,” said one DaimlerChrysler director. Alas, in the first 11 months of 2004 American motorists bought only 155 Maybachs. Demand has not been much stronger in western Europe. “We're disappointed with the growth of the segment,” admits Jürgen Hubbert, who recently retired as head of Mercedes, where he ran the Maybach project. Selling even 600 cars, the revised annual target, would be a struggle, he said.

Rolls-Royce has also fallen short in the crowded niche of luxury saloon cars. It had hoped to sell 1,000 of its huge Phantom saloons this year. Although it is doing quite well in America, where it is on course to sell 400, demand is weak in Europe and elsewhere. Sales could fall up to 25% short of the target for the first full year of production since this symbol of luxury started being assembled at the new Goodwood factory in Britain, built by BMW, which acquired the brand in 2002.

Despite Maybach's setbacks, Mr Hubbert insists that the brand's reduced sales forecast is “still an attractive and profitable number.” Industry analysts question that rosy assessment. BMW is clearly not pleased with the evolving business case for Rolls-Royce. The legendary nameplate has seen the revolving door in its executive suite spinning ever faster in recent months. The chief executive, Tony Gott, resigned in May, and Karl-Heinz Kalbfell, his successor, announced his own departure barely six months later.

There is growing speculation that General Motors will abandon its planned entry into ultra-luxury. The Cadillac Sixteen, with its long nose concealing a massive V-16 engine, was well received when it was unveiled as a prototype at the Detroit show in 2003, but it may never make it into production—or if it does, it will be marketed at a less exclusive niche.

The problem, it seems, is not a lack of rich people—but a lack of rich people who want to be readily identified as such by the envious masses. Showy wealth is no longer in fashion for cars, says David Cole, chairman of the Centre for Automotive Research in Ann Arbor, Michigan. In much of the world today, he adds, flashing your wealth is “a dangerous thing to do.” Security experts note that many of the increasingly fearful super-rich are trading down to less obvious wheels, spending the money they save on heavy-duty armour from specialist outfitters such

as O'Gara-Hess & Eisenhardt of Cincinnati.

What is a rich boy who likes toys to do? Ultra-luxury cars can be seen in the street or the car park. Instead, buy a luxury plaything that is not quite so visible. Sports cars, for instance, can be driven hard a couple of times a week, and will be but a distant blur by the time Joe Public has started to feel jealous. Nobody need park their sports car in a public place. So, too, yachts—either safely at sea, or cocooned in marinas protected from everyday life.

No surprise, then, that sales of mega-yachts worldwide are nearly 30% higher than in previous years, according to *ShowBoats International* magazine. Nor that Bentley, now owned by VW, is struggling to keep up with demand: not for its stately saloons, but for its new GT coupe, a “baby” Bentley that already has a waiting list several years long. Likewise, Ferrari seems to have avoided the problems facing its more stately, high-line competition. The Italian sports-car manufacturer still struggles to satisfy buyers who will wait as long as three years to take delivery of some of its cars. It is counting on its rebounding Maserati offshoot to increase sales revenues. Aston Martin, now owned by Ford, fits the same pattern, with a rush of orders for its new DB9 sports car stretching its British factory to the limits. Alas for DaimlerChrysler, there is no chance that the Maybach, built like a gold-plated tank, can be rebranded as a sporty little number.

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Steel

Strong, but squeezed

Jan 6th 2005
From The Economist print edition

Steelmakers' prices have soared, but their costs are rising

Get article background

FOR the world's steelmakers, 2004 was a miraculous year of rising demand and soaring prices. They expect more of the same in 2005, and short of a sudden world (or merely Chinese) slowdown, they may get it. But can they repeat last year's explosive profit growth? Maybe not.

The steelmaker is pig in the middle between builders and car firms on one side, and miners of coal, iron ore and some subsidiary metals on the other (the coal, mostly in the form of coke, is fed into the blast furnaces whose iron goes into about two-thirds of world steel). The price of all these raw materials rose fast, in dollar terms—some in any terms—in 2004. They are likely to continue that way in 2005.

Last month, Nippon Steel agreed new prices for coking coal with BHP Billiton, whose Australian mines meet some 30% of internationally traded demand. This week POSCO, from South Korea, made similar deals with BHP Billiton and Rio Tinto, number two in the trade. The two huge Asian steelmakers have been paying around $55 per tonne. From April, they will pay about $125. That $70 rise adds about $40 to the cost of making a tonne of steel. A benchmark product, hot-rolled coil, sells for $600-650.

With iron ore, price is only one trouble. The biggest supplier is Brazil's CVRD, followed by Rio Tinto and BHP Billiton. The two latter companies are now talking money with their Japanese customers. These annual talks in practice set the tone for prices worldwide. The last round led to a 19% rise, in dollar terms. This time the haggling could well see ore prices rise—also from next April—by 20-30%. Ore is cheap even now: its iron content is worth only $35-40 a tonne at the port. But an extra $10 a tonne will still cost such giants as Nippon Steel or POSCO $300m a year.

The steelmakers' real worry recently, however, has been getting the stuff. They have been doing their best to tie up long-term supplies. Last February, Luxembourg-based Arcelor, then the world's biggest steelmaker, signed a five-year deal with CVRD. Asian firms have gone further. In April, Baosteel, China's number one, made a ten-year deal with Rio Tinto. A raft of firms later made deals of similar length with CVRD: Shougang of China, POSCO, Japan's JFE Steel and Sumitomo Metals, and more. The daddy of these deals came in March, between four more Chinese firms and BHP Billiton for 25 years.

Increasingly the steelmakers are also ready to back their supply contracts with capital investment. Baosteel, for instance, has a 46% interest in a new Rio Tinto mine opened last April. JFE Steel last August agreed to take a 20% stake in a venture led by BHP Billiton to expand a mine that meets over one-fifth of the Japanese firm's ore needs. POSCO last month bought into coal mines in Canada and Australia.

The best news for the steelmakers is the miners' readiness to expand. The big three of iron ore, which together

dug some 400m tonnes in 2003, could be digging 600m by 2008. Coking-coal output too is rising fast, notably in China.

Can the steelmakers pass cost increases on? They won big price rises last year and are trying for more. But demand from China, though still rising, is doing so a lot less quickly than before, and its own steel output is expected to grow by 10-15% this year; China in November was a net exporter of steel. Smaller expansions are planned elsewhere, notably in Brazil and India. And much depends on the dollar (and, still pegged to it, China's yuan): dollar shifts are not simply cancelled out, as one might think, for a steel firm midway between an Australian mine and a Japanese car-builder. And the global economy? All steelmakers were gung-ho a year ago. Some today are cautious.

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Face value

Hong Kong's high roller

Jan 6th 2005
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Canning Fok is still adamant that his massive bet on 3G telecoms services will pay off

Bloomberg News

IN A city with a passion for gambling, it is fitting that the biggest bet in Hong Kong's recent history has been laid by its top company: Hutchison Whampoa has staked $22 billion on the global success of third generation (3G) mobile-phone services.

Though Hutchison is controlled by Li Ka-shing, Asia's richest man, and his son Victor is deputy chairman, the investment in 3G, which (among other things) enables users to download music and make video calls on their phones, has become associated with Canning Fok, the group's managing director for the past 12 years and a long-time aide-de-camp of Mr Li senior. Given the huge cost of buying licences and building infrastructure, start-up losses and early setbacks—clunky handsets, patchy coverage and slow data downloads—it is not surprising that the 3G adventure unsettled investors. Eighteen months ago it strained the finances of Hutchison, a ports-to-property-to-retailing conglomerate with nearly $19 billion in revenues and almost $2 billion in net profits in 2003, and even threatened Mr Fok's job.

Today, the rotund 53-year-old with a trademark pudding-bowl haircut has regained his boyish grin. Subscriber numbers in Britain, Italy and several smaller countries—which failed to hit his predicted 1m by the end of 2003—soared to almost 6m in December 2004, well above forecasts. “Demand is tremendous,” boasts Mr Fok. He demonstrates new, improved 3G handsets with childlike enthusiasm. “This LG model is selling like hotcakes,” he says, calling up the latest soccer scores and a live video clip of Hong Kong's traffic jams while dismissing this reporter's PDA-phone: “I don't believe in handheld computers.”

Mr Fok spends 60% of his time on 3G, checks updated subscriber figures every two hours until his bedtime at 2am and accuses the media of being too “emotional” about the issue. But he feels good about the decision to plough the nearly $20 billion windfall Hutchison made from selling Orange, its 2G telecoms operator, to Germany's Mannesmann (it was later sold on to France Telecom) in 1999 at the peak of the telecoms boom, straight back into 3G—which he says will make its first operating profit in 2006.

Many industry experts remain sceptical. Hutchison is courting subscribers by subsidising handsets, even giving away some phones, as well as offering free minutes, free text messaging and low-margin pre-paid plans. “It is easy to get carried away with the subscriber numbers. We are concerned that Hutchison won't make an economic return in this decade,” says Chris Alliott, an analyst at Nomura, an investment bank.

And as the cost of acquiring a 3G customer rises (to €270 in November from €252 in July) Hutchison's annual average revenue per user is falling—from €51.5 to €44.5 in the same period. Another analyst says that subscribers mainly want Hutchison's 3G service because it offers the cheapest voice telephony, not for its lucrative data downloads, and that average revenue figures are misleadingly reported “gross”, before discounts. One Hong Kong

tycoon, a friend of Mr Fok, is unconvinced: “3G is a gamble that I don't think will work. Who really wants video conferencing? Think how disastrous it could be for Hong Kong men if their wives call when they are with their mistresses. And I don't want business partners seeing who else I am doing deals with.”

Hutchison has been discounting so aggressively to capitalise on its early launch by locking in customers. But since November it has faced increased competition in Europe from Vodafone, the world's leading wireless provider, and two of the other five mobile operators in Hong Kong—SmarTone and CSL—launched 3G in December. Partly as a result, Cusson Leung, an analyst at Merrill Lynch, expects Hutchison's 3G operations to make an operating loss of $1.3 billion in 2006—when Mr Fok expects to be in the black—plus almost $1 billion in associated interest costs.

Even though Hutchison would be big enough to shoulder such a burden, it is hard to shake the impression that its obsession with 3G has distorted management priorities. Analysts accuse the group of selling some of its best assets, such as its stake in Procter & Gamble's Chinese consumer goods operation, to produce exceptional gains and so compensate for 3G losses—something Mr Fok denies. The group's stake in Canada's Husky Oil, highly profitable at current prices, may be on the block next, reinforcing Hutchison's reputation as an asset trader rather than a builder of businesses. Mr Fok bristles at that description.

In response to such criticisms, Hutchison has tweaked its strategy, floating minority stakes in various businesses to raise money while retaining control. For instance, most of its smaller telecoms operations, grouped as HTIL, now have a minority stake listed in Hong Kong. In December, Mr Fok talked about an early flotation of its Italian 3G business. Hutchison claims that such financial engineering reveals to investors the hidden value it has created. But the fact that its shares trade at just 1.2 times net asset value and at a discount to the Hong Kong market average suggests that the conglomerate pays a price for its complexity.

The wrong call?

An arguably even bigger criticism relates to the opportunity costs associated with 3G. With China on its doorstep and Mr Li's excellent connections there, Hutchison could surely have invested its Orange windfall more profitably on the mainland, where it already has property, infrastructure and retailing interests. Mr Fok says it is expanding as fast as it can in China. But that is probably true only of ports. Though it is growing in retailing, for instance, Hutchison still owns only 27 supermarkets and 100 drug stores on the mainland, compared with 3,500 stores in Europe. In property and in building materials, other Hong Kong investors, such as Vincent Lo's Shui On group, have pulled ahead. Hutchison's bet on 3G is not the disaster it threatened to become a year ago. But Mr Fok surely has more long nights ahead.

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China's champions

The struggle of the champions

Jan 6th 2005 | BEIJING, HONG KONG, LONGGANG, SHANGHAI, SHENZHEN AND QINGDAO
From The Economist print edition

China wants to build world-class companies. Can it succeed?

Get article background

THE floor of the darkened room is strewn with mattresses and scattered shoes. Sleeping bodies stir under duvets. Nearby, others nap at their desks, heads on arms. It is a Friday afternoon at the headquarters of Huawei—one of China's most dynamic and ambitious companies and one of a handful, alongside Haier in white goods, Lenovo in personal computers, TCL in televisions and steelmaker Baosteel, whose names are starting to be heard around the world.

The scene is reminiscent of a place on the other side of the globe: Silicon Valley at its most breathless, when programmers on the go “24/7” collapsed with exhaustion at their workstations. Huawei's astonishing campus on the outskirts of the southern city of Shenzhen is straight out of the technology bubble too, with four football fields, swimming pools, apartments for 3,000 families and a fantastical Disney-esque research centre with doric pillars and marbled interior.

The hubris at Huawei, which makes telecoms equipment like routers and switches, is also vintage 1990s America. Hu Yong, a vice-president, is proud of being in more than 70 countries, that over 3,000 of the group's 24,000 employees are overseas nationals and that two-fifths of its more than $5 billion revenues in 2004 will be made outside China. “Are we a global player? *Fortune* magazine says that is when international sales exceed 20% of your total,” he says. “So the answer is yes.”

Huawei is also starting to impress abroad. François Paulus, head of the network division at Neuf Telecom, a French firm that uses Huawei's optical transmission equipment to sell voice, data and video services, says: “When we first saw Huawei we couldn't believe a Chinese company could match an occidental one—we were wrong. Their technology was better and they were 30% cheaper.” Nigel Pitcher at Fibernet, a British telecoms firm that uses

Huawei's ethernet equipment, calls the company “world class”. Huawei is spending millions of dollars building a global brand—its print ads lyrically recount how its engineers toiled in the Algerian Sahara to install mobile-phone base stations “ahead of schedule and under budget”.

Yet the true extent of Huawei's international reach is hard to gauge. Much of its overseas business is in emerging markets where there is little competition. Though it is pushing into Europe, it lacks the muscle of rivals. In France it has only around 80 support staff compared with Alcatel's thousands. Mr Paulus worries that rivals are catching up with Huawei's technology. And while Huawei has won contracts in the growth area of third-generation mobile networks—the latest is in the Netherlands—many are in minor markets. That Cisco, the industry leader, successfully sued Huawei for intellectual-property theft suggests weaknesses in its technological base.

Back home in Shenzhen, Huawei is just as opaque. Its ornate buildings on campus are oddly deserted and Huawei is vague about what they are all for. While it insists that it is a private company owned by its employees, Ren Zhengfei, one of its founders, was an officer in the People's Liberation Army. The company denies, but admits it cannot shake, speculation that it is really controlled by the military. It denies even more hotly rumours that its overseas offices, some run from Chinese consulates, spy for China. William Xu, another vice-president, insists Huawei has no government links. Yet its multi-billion-yuan campus, lavish marketing and relentless expansion overseas are hard to square with it being a private company that made just $300m of profits last year. Nor is it clear why Huawei has not yet gone public (as some rivals have).

The contradictions at Huawei are mirrored to some degree by all of the country's emerging multinationals and ultimately reflect those of China itself. The economy is still in transition between dirigisme and free markets. Its political system can harness enormous resources, but ultimately undermines its own objectives in a paranoid desire to retain control.

That China intends to create world-class companies is indisputable. Appalled by the speed of western development and, rightly, attributing much of that to the success of western corporations, the central government decided some years ago that 30-50 of its best state firms should be built into “national champions” or “globally competitive” multinationals by 2010. At home, these companies would enjoy tax breaks, cheap land and virtually free funding via the state-owned banks. Abroad, the government would help them to secure contracts or exploration rights.

This has prompted fears that the Chinese, like the Japanese in the 1980s, are about to out-compete and to buy up the rest of the world. And undoubtedly a small group of Chinese companies has become bigger, more efficient and internationally acquisitive in the past several years. But this also raises questions about what kind of companies China is fit to build. Arthur Kroeber, managing editor of the *China Economic Quarterly*, argues that China's “unique combination of first world infrastructure and third world labour costs” and its focus on capacity building rather than technological innovation mean that corporate successes are more likely to be component manufacturers or processors of intermediate goods than global consumer brands such as South Korea's Samsung.

Energetic dragons

China's best companies bear this out. The most impressive are the resources groups. Three big oil companies, PetroChina, Sinopec and CNOOC, are aggressively buying overseas and building pipelines across central Asia to satisfy China's fuel demands. They are in more than a dozen countries: CNOOC, for example, is Indonesia's largest offshore oil producer.

Shanghai-based Baosteel, China's top steel producer, already sits on the *Fortune* 500 list of the largest global companies by sales. It will more than double capacity by 2010 to become the world's number three producer. In Brazil it is negotiating the biggest overseas investment ever made by a Chinese company.

Like Baosteel, Chalco, China's leading aluminium group, and Yanzhou Coal, the largest listed coal producer, are relatively new companies created to consolidate fragmented domestic industries and then to expand internationally. China Minmetals, the biggest base metals company, has gone further with its recent approach to buy Noranda, a Canadian copper and nickel miner, for a reported $7 billion. And in components Wanxiang, an auto parts group started by a farmer's son as a bicycle repair shop, has $2 billion of annual sales in 40 countries and owns research assets in

America.

By contrast, China's consumer-brand and technology companies are struggling. The latest to grab the headlines is Lenovo, China's top PC-maker which in December bought IBM's personal computer business, three times its size, for almost $2 billion. Having failed to turn its own marque into a global brand—the reason it changed its name from Legend—it bought an international business, but one that even IBM could not make consistently profitable, to prop up its overseas sales. In China, Lenovo's profits from PCs are rising by just 1% per year and its market share is being squeezed as Dell makes inroads in expensive computers and private-label firms undercut prices on basic machines. Far from being world-class, Lenovo is less efficient than its domestic peers, says Joe Zhang, an analyst at UBS in Hong Kong. Some put its early success down to good government connections—it is majority-owned by the Chinese Academy of Sciences.

Global champions*

2003, $bn

	Sector	Revenue	Net income
PetroChina	Oil/gas	36.60	8.39
Sinopec	Oil/gas	51.10	2.60
CNOOC	Oil/gas	4.93	1.39
Baosteel	Steel	5.31	0.84
Chalco	Aluminium	2.80	0.43
Lenovo†	PCs	2.97	0.14
SAIC	Cars	0.83	0.18
TCL	TVs/electronics	3.40	0.07
Haier	White/brown goods	9.7	*na*
Wanxiang	Car parts	2.0	*na*
Huawei	Telecoms equipment	5.00‡	0.30‡

*Some data available only for listed subsidiaries †Year to March 2004 ‡2004 estimate

Source: Company information

Another much-heralded company is Qingdao-based Haier. Having built up commanding domestic market shares of 20-70% for most home appliances, the group has offices in more than 100 countries and overseas revenues of over $1 billion. However, most of its international sales are in niche markets, and Haier lacks the cost control, production discipline, market dominance and sales support it needs to compete with foreign rivals outside China. Even at home it has had to resort to price wars to regain market share lost to better foreign products.

In cars, Shanghai Automotive Industry Corp (SAIC) aims to be among the world's top six car companies by 2020. In October it trumped a domestic rival to buy Ssangyong Motors, South Korea's fourth largest carmaker, and it is also in talks to rescue MG Rover in Britain. Yet these are defensive acquisitions of technologies and design skills to catch two nimbler rivals, Chery and Geely, which already make own-brand cars at home (Chery plans to launch models in America by 2007). Domestic joint-ventures with General Motors and Volkswagen have constrained SAIC and made it uncompetitive, says Paul Gao of McKinsey.

TCL has made a better fist of things. At home it remains the most profitable TV producer. Internationally, buying the TV business of France's Thomson in early 2004 turned it into the world's biggest volume TV maker. “Our goal is to be a Chinese Sony or Samsung,” says the chairman, Li Dong Sheng. Despite the boast, at home TCL is depending on Thomson's rear-projection technology to make thinner sets to defend itself against Samsung. And in mature markets it does not intend to use TCL's brand at all, but is trying to revive Thomson's ailing RCA marque. Vincent Yan, managing director of TCL International, admits that, “no Chinese company is ready to build a global brand. You need technology and products. Just spending money on ads without good products doesn't make sense.”

Reality check

Over the past decade, then, China has created some quite large companies. More than a dozen are in the *Fortune* 500 list, though almost all of those are domestic monopolies or near-monopolies, such as telecom operators or big commodity producers. A handful of others are starting to compete internationally, though mostly in niche markets and on price rather than with technology or brands.

But the global footprint of Chinese companies is still rather faint. Their outward foreign direct investment was just $2.9 billion in 2003, compared with the more than $50 billion that flowed into the mainland. China's stock of outward FDI amounts to $33 billion, less than half a percent of accumulated world FDI. These facts have led some long-term observers of the Chinese economy to the conclusion that China's industrial policy since the early 1980s essentially has failed. That might turn out to be premature. But one contrast is revealing: 20 years after the start of its rapid economic development a decade earlier, South Korea had built successful heavy industry groups and was beginning to lay the foundations for the technology and consumer brands people know today.

If anything, the gap between Chinese and foreign firms is widening, as the latter merge, reinvest the profits yielded by their scale economies and continually hone their management systems. One only has to think back to China's first crop of potential champions. A decade ago, Zhurong was hailed as the original Huawei. Both Founder

and Stone were well ahead of Lenovo in the PC market and Yuchai, a diesel engines maker, and Kunming Machine Tool were seen as the next big technology plays. D'Long, a conglomerate spanning food and financial services, was lauded as a smart operator that bought tired foreign brands for a song and cut costs by taking manufacturing to China—until last year when it collapsed with huge debts.

These companies all had access to capital, cheap labour and a big domestic market. George Gilboy, an affiliate researcher at the Massachusetts Institute of Technology and for the past decade a senior manager at a multinational firm in Beijing, says they failed not because of poor products, but because of organisation and business strategy: “The issues that plagued them are still very much present.” These issues are grounded in China's political and economic system and they lie in wait to trip up today's aspirants to world-class status.

Over here or over there?

Whereas policymakers in Japan and South Korea deliberately nurtured strong private companies (albeit often with close political ties), the Chinese government, deeply afraid of a politically independent private sector, implemented reforms that have given state firms privileged access to capital, technology and markets. But in order for the economy to grow faster, the central government has allowed foreign companies into China at a much earlier stage of its development and these now control the bulk of the country's industrial exports, have increasingly strong positions in its domestic markets and retain ownership of almost all technology. The result is a corporate landscape of a few big private companies such as Huawei, a mass of lumbering state-owned firms and increasingly powerful foreign multinationals.

China's unreformed political system has a second unintended consequence. Like the bosses of South Korea's *chaebol* before them, Chinese managers respond to regulatory inconsistency and opacity by pursuing short-term returns and excessive diversification rather than by investing in long-term technological development. Most are unwilling to develop “horizontal” networks with customers, suppliers and trade bodies—which in other countries establish technology standards and foster confidence in long-term research. In China, a company's best defence against corruption and the direct political linkages that benefit rivals is often to avoid business collaboration entirely and instead build vertical links up the Communist Party hierarchy and curry favour with local bureaucrats.

The power of officials to change policy at a moment's notice (suddenly appointing a successful boss as governor of a province, for example) or implement it in different ways for different firms, combined with the impossibility of achieving economies of scale through mergers because targets enjoy political patronage, together explain why Chinese managers tend to leap from one opportunity to the next, trying to grab a profit before the rules and the competition catch up. A year ago mobile phones were hot—Lenovo, TCL and Haier all invested, with little success, against Motorola and Nokia. Sun Jianmin, a management professor at Beijing's People's University, notes a cultural bias for financial services over “mere” manufacturing. Haier, TCL and even Baosteel all have subsidiaries in banking or insurance. “How can a long-term company emerge in such a short-term environment?” asks Mr Gilboy.

Nowhere is this more obvious than in technology. In recent years China has averaged a $12 billion annual trade deficit in electronic goods, components and machinery, according to the Ministry of Commerce. Most of its “high-tech” manufacturing is actually low-value-added assembly. The really smart bits, such as integrated circuits, are imported. The government continues to direct research spending, focusing on risky “big bang” projects (like sending a man into space). Indeed, China's low wages actually provide a disincentive to such investment, since Chinese firms can often boost short-run profits by replacing capital with additional labour.

Not surprisingly, therefore, foreign companies control virtually all the intellectual property in China and account for 85% of its technology exports. No wonder that Lenovo lacks Dell's ability to innovate and that Huawei tried to catch up with Cisco by bending the rules. Haier's furious product development—15,100 specifications across 96 categories, including a washing machine that also cleans sweet potatoes—typifies the lack of focus that is evident at many Chinese firms. As J.P. Huang, who runs JPI, a mergers & acquisitions boutique, puts it: “We Chinese like the romance of memorising Confucius. The discipline of the laboratory is not in our blood.”

New wisdom needed

Nor, yet, is modern management thinking. Chinese companies struggle with challenges such as negotiating a cross-border partnership or exiting a loss-making activity, argues Gordon Orr at McKinsey in Shanghai. While

multinationals import their most sophisticated business systems to China, improving productivity by 15% a year, Chinese companies still resort to “brute force”—throwing more labour and capital at problems, rather than thinking about new processes. Unless they improve, they do not stand a chance against world-class competitors, either outside their borders and soon not even on their home turf, warns Mr Orr.

China has so far failed to build world-class companies. Even the natural monopolies and resources companies are mostly just big rather than particularly efficient. In manufacturing, technology and consumer areas, a few companies are groping towards international competitiveness, but none are there yet. Nor will China necessarily produce a Sony or a Samsung. “People assume it is just a matter of time before China develops world-class brands,” says Mr Gilboy. “But Chinese firms may not develop like Japanese or Korean ones did. China may be building a distinct model of capitalism with distinct firms.” While American firms broadly excel at breakthrough innovations, and Japanese ones at process and incremental innovations, “China capitalism may simply be best at making things a lot cheaper.” If so, China might do well to focus on building no-name component suppliers as Taiwan has, rather than home-grown brands as in Japan and South Korea.

For unless China institutes far-reaching political and structural reforms that give Chinese managers the confidence to invest in long-term technological development, it cannot readily build a globally competitive corporate sector. Those sleeping employees at Huawei might just have been working too hard. But perhaps they had little better to do. Workers napping on the job are nothing new at a Chinese company.

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World trade

Time to deliver the goods

Jan 6th 2005 | WASHINGTON, DC
From The Economist print edition

LANDOV

This is a big year for global trade. Progress, as ever, will depend greatly on America

Get article background

MORE than any other country, America still sets the tone of the global trading system. To be sure, no one who has followed developments at the World Trade Organisation (WTO)—not least at Cancún, in Mexico, in 2003—can deny the increasing importance of developing countries, or the continuing influence of Europe. But America remains the world's biggest trading nation; and its leadership has been essential to completing every global trade round since the modern multilateral system was set up after the second world war. The current Doha round is little different. Though American effort alone cannot guarantee agreement among the WTO's 148 members, the round will not be concluded without it.

That George Bush is still president ought to help. His administration helped launch the Doha round in 2001, along with the European Union, and fought a bitter battle to win fast-track negotiating authority from Congress in 2001-02. Robert Zoellick, the president's top trade negotiator, has shown a tenacious commitment to the Doha round. After the collapse of the Cancún talks in 2003, many expected America to walk away. In fact, Mr Zoellick did much to get things going again.

It is not obvious, however, that this enthusiasm will continue in Mr Bush's second term. The president has an ambitious domestic agenda that makes scant mention of trade. He wants to overhaul the pension system (see article) and reform the tax code. Paying too much attention to trade liberalisation could make progress in these

difficult areas harder to achieve. It is no time to upset reliable Republican senators from farm states, for instance, by agreeing to big cuts in agricultural subsidies. Ideally, the White House would like to keep a low political profile on trade issues until its domestic battles are over.

If only

Events may dictate otherwise. Already a big fight looms over the Central America Free Trade Agreement (CAFTA), on which talks were completed last spring but which lawmakers have yet to approve. Opponents of the agreement, from trade unions to sugar farmers, have mobilised against it. Given the broad scepticism in Congress towards trade, the vote will doubtless be a cliff-hanger—like the battle over fast-track authority, which squeaked through the House of Representatives by one vote.

Will CAFTA be passed? The growing importance of Latino voters may make politicians in both parties reluctant to reject a deal for which Central Americans are clamouring. But even pro-trade Republicans acknowledge that such considerations may not be enough. CAFTA's failure would send a grim signal to the Doha negotiators. As Dan Ikenson of the Cato Institute puts it, if America cannot pass a smallish regional trade agreement, it is clearly “ill equipped and unprepared” to negotiate seriously in the Doha round.

Nor is CAFTA the only chance for Congress to flex its muscles. In the coming months America's lawmakers may also have a noisy debate about the virtues of the WTO itself, because every five years Congress has a chance of voting to quit the trade body. Though no one expects that vote to succeed, it will offer plenty of opportunities for trade's enemies to hold forth on the evils of the WTO.

Textile safeguards are another possible flashpoint. To placate the textile industry's concern about floods of Chinese imports once the global system of textile quotas expired at the end of 2004, the Bush administration agreed to consider imposing safeguard quotas if there was a “threat” of market disruption, but before any import surge had actually occurred. A large coalition of textile importers, who would like to buy more cheaply from abroad, filed suit against the government. On December 30th a federal judge sided with the importers, preventing the administration from imposing “threat-based” safeguards. The Bush team may have quietly welcomed the verdict, but the textile lobby could have more trouble in store.

These domestic political distractions mean that America's trade negotiators will need more explicit backing from the White House than they have had hitherto. So far Mr Zoellick has been able to push the Doha round along with little assistance from Mr Bush. That may become more difficult as hard political compromises, on freeing farm trade or cutting tariffs on sensitive industrial goods, need to be made.

Equally important, Mr Zoellick himself may not be in the job much longer. America's trade representatives tend to serve only one term, and Mr Zoellick is being tipped as Condoleezza Rice's deputy at the State Department. He had been touted as a successor to James Wolfensohn, the head of the World Bank, who said this week, to no one's great surprise, that he would step down when his term expires in May.

Although Mr Zoellick has said nothing about his plans, Washington's trade types are already chattering about possible successors. High on the list is Gary Edson, who was a top economic official in the White House before working on Mr Bush's re-election campaign. He was also chief of staff to Carla Hills, trade representative under Mr Bush's father. Other possibilities include Josh Bolten, currently the head of the Office of Management and Budget, who also worked for Mrs Hills. Grant Aldonas, an undersecretary at the Department of Commerce, is also being mentioned.

Despite possible trouble in Congress and a probable change of top trade negotiator, America can still push hard for a successful Doha round, provided that Mr Bush himself cares enough about global trade to do so. Despite the good spots on his record, he has bowed to anti-traders before, notably on steel tariffs early in his first term. This year will be a stiff test of the president's credentials.

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Fannie Mae

It never Raines

Jan 6th 2005 | WASHINGTON, DC
From The Economist print edition

The mortgage giant loses its boss and looks for capital

JUST three months ago the Office of Federal Housing Enterprise Oversight (OFHEO), an obscure body that regulates Fannie Mae, said that it had sniffed out some fishy accounting at America's giant mortgage company. Used to brushing off pesky critics, Franklin Raines, Fannie Mae's chairman and chief executive, scoffed at the allegation before Congress and turned to the Securities and Exchange Commission (SEC) to overrule the meddling regulator. But the SEC backed OFHEO, and shortly before Christmas Mr Raines and Tim Howard, Fannie Mae's chief financial officer, lost their jobs.

Yes, said the SEC, Fannie Mae had been improperly smoothing losses on derivatives contracts used to hedge its $900 billion mortgage portfolio. That made the accounts look better—good enough, indeed, to trigger fat bonuses for top executives. The company will have to restate its earnings for the past four years to record a $9 billion hit: this week it appointed a new auditor, Deloitte & Touche. Its capital will be dragged below regulatory requirements, especially since OFHEO, dizzy with its new-found clout, recently lifted the bar by 30%. To shore up its balance sheet, Fannie Mae said on December 29th that it would sell $5 billion in preferred stock. However, it will either have to raise a lot more or slow its growth to a standstill to reach the new levels. And asset sales are unlikely, because they would upset the politically sensitive mortgage market.

To many, this is an overdue come-uppance for a company that has been known to call its detractors “anti-housing” and “pencil-brains”. Fannie Mae and its smaller sibling Freddie Mac, which also stumbled over accounting rules in 2003, enjoy special privileges because they buy up home loans, providing liquidity to the housing market. A $2.25-billion line of credit to the Treasury, tax advantages and low capital requirements together imply a government guarantee that translates into lower borrowing costs. The Congressional Budget Office puts the value of this implicit subsidy to the two mortgage giants at $19.6 billion a year.

Does Fannie Mae really deserve to be fed by taxpayers? When it was formed in the wake of the Depression, the company did much to revive America's collapsed housing market. But now there is a vigorous secondary market for jumbo mortgages that could easily soak up the smaller loans dominated by Fannie Mae and Freddie Mac. The companies have also strayed from their mission of helping people afford their own home: they lag behind regular mortgage banks in funding first-time home-buyers, especially those from ethnic minorities. The subsidy is all the more objectionable when so much of it seems to go into shareholders' and executives' pockets and on a huge, and so far effective, lobbying effort aimed at preserving its status. And the subsidy has fuelled such fast growth and high leverage (Freddie and Fannie have $1.7 trillion in debt outstanding) that Alan Greenspan, chairman of the Federal Reserve, has mused that a blow-up could do great damage to the American economy.

Recent events have given Fannie Mae's critics stronger arguments than ever for reform. The Bush administration is no fan; and Richard Baker, who chairs the House of Representatives committee overseeing Fannie Mae, says, “Nothing is off the table including the line of credit.” In practice, change is likely to be mild, focusing on strengthening regulation. Lawmakers will tussle over whether the Treasury should take over, or whether OFHEO should have the authority to approve new products. Reformers hope to win receivership powers for OFHEO so that

it can wind down Fannie Mae should it run into trouble; appointing a potential receiver might persuade investors that Congress would not bail the company out.

If history is a guide, any change will be hard won. Fannie Mae has many friends in Congress. But even its keenest supporters are scandalised by Mr Raines's retirement package: $19m in severance pay and a pension of $1m a year. “The usual defenders have remained quiet,” notes Mr Baker.

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American interest rates

Just a minute

Jan 6th 2005
From The Economist print edition

Angst revealed by the Fed

Get article background

NEW support for the claim that American interest rates have been too low for too long came on January 4th from no less a source than the Federal Reserve, when the central bank released the minutes of its December 14th rate-setting meeting. It seems there was much fretting over the risks of quickening inflation and of cheap money's role in encouraging investors to seek more risk. Markets for bonds, shares and currencies all took the minutes as a sign of growing hawkishness.

As a result, the dollar climbed to a three-week high of $1.32 against the euro on January 5th, breaking the fall that had seen Europe's single currency strengthen to $1.36 in the final days of 2004. The yield on America's ten-year Treasury bond rose quickly by eight basis points (a basis point is one-hundredth of a percentage point). Share prices fell.

The markets' reaction was in part in response to the Fed's newly transparent policy of releasing the minutes of its monetary-policy meetings just three weeks after the event. It used to wait until after the next meeting to reveal its inner thoughts and fears. Minutes are thus now more likely to move markets, rather than be of merely historical interest.

The good news from the December meeting is that the Fed seems increasingly persuaded that America's economy is growing strongly. But as the gap between America's actual and potential output has closed, inflation is weighing more heavily on the rate-setters' minds. Their tone has convinced many economists that the pace of rate rises will continue, if not quicken, during 2005.

Does all of this spell a comeback for the dollar? Probably not: the deeper causes of the dollar's woes, America's deficits on its current account and in its government budget, show little sign of receding. The December minutes show that many at the Fed agree with that.

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Japan's second-hand bank accounts

Sealed and delivered

Jan 6th 2005 | TOKYO
From The Economist print edition

Identity theft, Japanese style

FIND a list of names in a rubbish dump; get a mobile phone; buy a second-hand bank account. That, plus a little acting talent, has netted swindlers billions of yen in Japan's latest crime trend. Crooks phone unsuspecting victims in tears, pretending to be grandchildren or other relatives. They claim to be in trouble—a car accident, say—and beg for several million yen to be sent to a certain bank account at once.

Remarkably, many people have fallen for this. Police say that thieves took more than ¥15 billion ($138m) between January and October last year, almost four times as much as in the whole of 2003. The true figure may be more: some people are doubtless too embarrassed to admit to being duped. Lately, the impostors have had to become cleverer, pretending to be lawyers or police rather than simply sobbing “It's me” (a phrase that has led the crimes to be dubbed *ore-ore sagi*, or “me-me frauds”).

One reason for the crime wave is the ease with which bank accounts can be bought and sold. Until recently, selling accounts, though illegal, carried no penalty. Because seals, rather than signatures, are used for bank transactions, accounts can be passed on by handing over bank-books and seals. Banks rarely demand personal identification even for large domestic transactions.

Those selling see an easy way to earn money without thinking about what their accounts might be used for, says Kiyoto Akiyama, a Tokyo lawyer who has helped victims reclaim some of their losses. Some have opened and sold 20 accounts at separate banks in a day.

Prodded by the authorities, banks are monitoring websites over which accounts are sold and are freezing or closing suspicious accounts. Yet they have been unable to keep up. Second-hand accounts might also be used for money-laundering and other crimes—although the Ministry of Finance says that they are unlikely to be used by terrorists, because banks have blacklists of overseas accounts and require personal identification for international transactions.

The racket may soon be stopped. Japan's parliament has voted to impose fines of up to ¥500,000 on buyers and sellers of second-hand bank accounts, with stiffer penalties, including jail, for those that operate secondary markets. The new regime came into force on December 30th. Even so, anyone receiving a begging call in this new era of video-enabled mobile phones should ask for pictures before parting with cash.

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American corporate pensions

Turbulence

Jan 6th 2005 | NEW YORK
From The Economist print edition

An airline and its unions scrap with America's private-pensions insurer

FOR the employees of United Airlines, these are not easy times. United has been struggling to climb out of bankruptcy since 2002, and like the rest of its troubled industry has been not only cutting jobs, but also trying to negotiate reductions in pay and benefits. The airline stopped contributing to its four employee pension funds, which are now underfunded by $8.3 billion, last July. Recently, the company said that to survive it must terminate all four plans.

This, you might suppose, explains a statement by United's pilots' union last week. The union vowed to oppose an “outrageous ploy”: “punitive and vindictive”, it thundered; “deplorable” and “duplicitous”. However, the union was raging not at United's bosses, but at the Pension Benefit Guaranty Corporation (PBGC), the quasi-governmental insurer of America's corporate pension plans.

On December 30th the PBGC said it was taking over the pilots' pension plan, which has a $2.9 billion black hole. The PBGC's individual payouts are limited to $45,000 a year, whereas experienced pilots often have six-figure pensions. The cap on PBGC payments means that the agency will have to meet only $1.4 billion of the deficit. Even this represents the third-biggest claim it has ever shouldered.

United's pilots are furious, however, because the PBGC's move puts in jeopardy a tentative deal they struck with the airline last month. The pilots' union agreed not to oppose the termination of its pension plan and to take a 15% salary cut. In return it was promised, among other sweeteners, $550m in convertible securities in the reorganised company. The deal stipulated that the pilots' plan would not be wound up (and handed over to the PBGC) until May, by which time the union would have accrued another $140m of benefits. However, it was contingent on the termination of United's three other pension plans, which was not popular with the airline's other unions. Retired pilots, who were cut out of the $550m, were displeased as well.

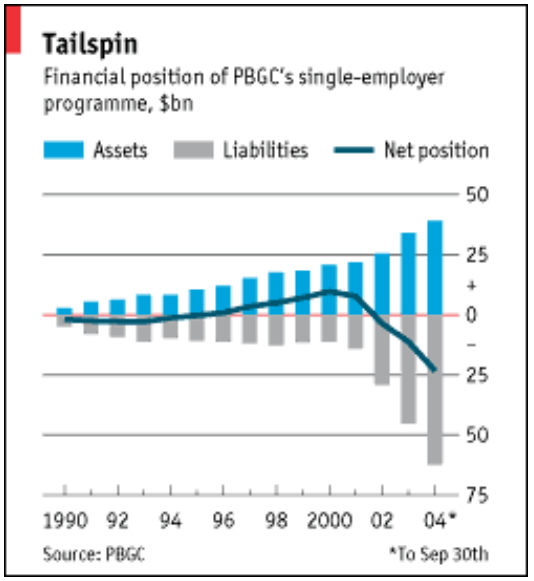
The PBGC's decision is subject to court approval, but the insurer believes that United can afford to continue running perhaps three of its plans. Indeed, it says it is trying to give United breathing room so it can maintain more plans, as well as save itself the $140m if it can only act sooner rather than later.

The agency says that it must balance pilots' needs against the risk of setting an expensive precedent. One of the basic checks on the pension-insurance system is that unions have an interest in keeping plans alive. On December 30th, indeed, United's flight attendants vowed to fight any attempt to terminate their pension plan. But the PBGC argues that deals like that between United and its pilots would allow firms to push their most underfunded pension plans on to the agency while making juicy promises to the affected employees. This would make the PBGC “not an insurer, but a subsidiser of company pensions”, says the agency's Randy Clerihue.

This the PBGC could little afford. At the last count, its liabilities exceeded its assets by $23 billion (see chart). With United, airlines account for five of the biggest 10 claims in its history and there could be worse to come. The 11 biggest airline pension plans are underfunded by $31 billion. As well as

United, both US Airways, already in bankruptcy, and Delta, in a fight to avoid it, have big pension deficits. Fitch, a rating agency, believes that this year network carriers will be in a “more precarious position” than since just after September 11th 2001.

Should the PBGC prevail, as it did in similar court battles with Bethlehem Steel and others, the hole in America's corporate pensions will remain. Its causes are largely structural: lax funding requirements, convoluted accounting rules that make it easy to hide the true state of pension funds, and PBGC premiums only loosely related to risk. The PBGC and others have long clamoured for reform. Congress is finally showing signs of stirring. Hope that it will not be too late.



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Financing terrorism

Controversial customers

Jan 6th 2005 | NEW YORK
From The Economist print edition

A Middle Eastern bank is sued in America for supporting terrorism

AFP

The plaintiffs' target

IN THEORY, the world is united in fighting the financing of terrorism. In practice, the issue presents grave problems to both those attempting to prosecute it and those accused of participating in it. Just how grave is illustrated in lawsuits filed in America against Arab Bank, of Jordan, one of the largest and most geographically dispersed institutions in the Arab world. The plaintiffs accuse the bank of contributing to terrorism and murder by providing financial services to Hamas, an organisation regarded as unquestionably terrorist by America's government and others, but viewed favourably in much of the Muslim world, as well as to several smaller groups.

The most recent suit, filed on December 21st in New York's federal court, alleges that Arab Bank served “as the ‘paymasters’ to the families of terrorists who carried out suicide bombings” (thus providing a financial incentive for such attacks) and provided critical banking services to charitable organisations fronting for Hamas. The suit, on behalf of 700 plaintiffs, mostly from Israel, but also from 11 other countries, follows two others, the more important of which was filed last July and now includes more than 150 American plaintiffs. In all three cases the plaintiffs are seeking unspecified damages.

Arab Bank will not respond officially for several weeks. Meanwhile, through its American lawyer, Kevin Walsh of Winston & Strawn, it unequivocally denies any involvement with terrorism finance. It says that it adheres to all lists, including those prepared by American authorities, for excluding terrorism-related clients and applies know-your-customer rules to block people with terrorist connections, including the families of suicide bombers.

This contention will be at the heart of a bitter fight over facts. Gary Osen, lead attorney in the first of the three cases, describes the suit as alleging that Arab Bank administered an elaborate “death and dismemberment plan” requiring claimants to submit certificates of martyrdom and prove they were on special lists arranged by the bank and a Saudi-based group that provided funding. Arab Bank then distributed the money through its branches in the Gaza strip and the West Bank. The involvement of Arab Bank with families of Hamas suicide bombers, adds Lee Wolosky, a lawyer on the latest case, was blatant: “There are no secrets here, everything was transparent.”

The legal technicalities will draw as much interest as the arguments over fact. One question is the venue. None of the attacks took place in America and most of the participants are not American. In the past, such cases would have been moved to a more germane jurisdiction, such as Israel or Jordan. Indeed, Arab Bank's first move was to ask the court for the case to be dismissed or transferred to Amman, the Jordanian capital.

Arguments of two types were put forward for proceeding in America. Both have been heard with increasing sympathy by American courts. The first mattered most to American plaintiffs: Arab Bank has operations in New York. This office, according to the suits, played a crucial role in the financial transactions at issue. According to the

July complaint, money for Hamas was raised in Saudi Arabia and then converted from riyals to dollars and shekels in Arab Bank's Madison Avenue office before being wired back to the Middle East. If true, this would violate the Anti Terrorism Act of 1990, which has taken on new prominence since September 11th 2001.

For foreign plaintiffs, America has also become more open to civil litigation under the Alien Tort Claims Act, passed in 1789, which allows them to bring cases in American courts under the “law of nations” or treaties. For two centuries it was largely ignored before being revived, primarily by human-rights activists in suits against multinational firms. Last summer, the Supreme Court left open the possibility that American courts could hear cases based on violations of universal international norms, which it did not define. The plaintiffs argue that Arab Bank has contributed to the violating of such norms by assisting Hamas in perpetuating genocide.

Unwelcome and unseen

Whatever the results of these cases, they will have large repercussions for international banking. Many banks with global networks inevitably come into contact with clients in one country that may be considered abhorrent in another. It is quite possible that these contacts are made inadvertently. Citigroup recently sold a minority stake in a bank in Saudi Arabia after allegations of links between banks there and an account financing, among others, the Saudi Committee for the Support of the Intifada al-Quds, the fund for the families of suicide bombers that Arab Bank is alleged to have assisted (but denies having as a client). To avoid such trouble, some banks may decide that they are better off not operating in some parts of the world.

Naturally, the outcome of the case will have political as well as commercial implications. Should Arab Bank, most of whose assets are outside America, be held liable in an American court, questions may arise about whether plaintiffs could enforce the verdict in other countries. The lawsuits could also put America's government in an unenviable position, despite its condemnation of Hamas. Jordan is, after all, an important American ally, and building up its economy, which would inevitably be hurt by a setback for Arab Bank, is an aim of American foreign policy. In more than one sense, the trials in these cases have not yet begun.

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Economics focus

The route to real pensions reform

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Progressive indexing of retirement benefits by wage level, argues Robert Pozen, is the key to Social Security reform

UNDER the slogan of reforming Social Security, America's state pension system, George Bush wants to allow workers to allocate a modest portion of their Social Security taxes to a personal retirement account. Some Republicans want to do this without enacting broader reforms to the state pension system. The result, as *The Economist* discussed on December 11th (see article), would be a sharp increase in short-term federal borrowing without any decrease in the system's huge long-term deficit. Some Democratic opponents of personal retirement accounts advocate a complex combination of tax increases and benefit reductions to eliminate Social Security's financial hole. But the current Congress is not likely to increase taxes, or enact reform legislation containing only the political “pain” of benefit reductions.

In a viable legislative package, personal retirement accounts supply the political sweetener that allows the passage of benefit reform, which reduces Social Security's long-term deficit. That leaves a crucial question: What type of benefit reform?

One logical answer would be to increase the normal retirement age since Americans, on average, will draw Social Security benefits for more years. The normal retirement age is already slated to rise to 66 by 2011 and to 67 by 2027. It could be extended gradually to 70 by 2057. But such an extension would face three practical challenges. First, many senior citizens already have difficulties finding full-time employment. Second, most elderly Americans want to retire earlier rather than later. Third, low-wage workers tend to hold jobs requiring a relatively high degree of physical labour, so they may be physically incapable of working in the jobs available to them over age 67.

A second answer would be to move completely from wage to price indexing in calculating initial Social Security benefits. Price indexing means increasing retirement benefits in line with consumer prices, in order to protect the purchasing power of such benefits. Wage indexing means increasing retirement benefits in line with wages, in order to preserve the portion of wages replaced by benefits. After retirement, Social Security benefits are already indexed to prices through annual cost-of-living adjustments. But at the time of retirement, workers' initial benefits are set by adjusting their average career earnings upwards by average wage growth over their careers.

It was reported this week that the White House is likely to propose a shift from wage to price indexing of initial benefits. Using wage indexing instead of price indexing in computing initial benefits has a tremendous financial impact on Social Security, since wages have, on average, risen more than a percentage point per year faster than prices. If Congress today switched from wage to price indexing of initial benefits, this alone would eliminate the 75-year deficit of Social Security. So why don't we make the switch? Because it would have a devastating impact on low-wage earners who depend almost entirely on Social Security for retirement income.

The third and best answer is progressive indexing. This means the continuation of wage indexing for all workers with average career earnings of $25,000 or less. It also means not touching the benefit formulas of anyone already in or near retirement (workers aged over 55 today). Conversely, the initial benefits of all workers with average

career earnings above $113,000 retiring after 2011 would be increased by price indexing. Almost all these workers receive significant amounts of retirement income from company plans and other savings vehicles in addition to Social Security. The initial benefits of workers falling between these two groups would be increased by a proportional blend of wage and price indexing.

A balance of benefits

While the Social Security benefits of most middle and high earners would still rise under progressive indexing, they would grow more slowly than under the current system. To make this package politically attractive, Congress should offer all workers the chance to offset most of this slower growth in traditional benefits by allowing them to invest two percentage points out of the 12.4% in payroll taxes they pay on all wages up to an annual maximum ($90,000 in 2005 and rising yearly). This money would be invested in a standard balanced account, with 60% of assets in a broad-based American stock index, such as the Wilshire 5000, and 40% in a high-quality bond index, such as the Lehman Aggregate Bond index.

According to the chief actuary of Social Security, the standard balanced investment account is expected to produce an annual real return averaging over 4.9% per year after expenses—significantly higher than the returns in the current system or from Treasury bonds. Participating workers would receive retirement income from their personal accounts as well as traditional Social Security benefits. Accordingly, the traditional benefits of these workers would be lowered by the total amounts allocated to their accounts plus interest.

This combination of progressive indexing and balanced accounts would cut the long-term deficit of Social Security by half, from a present value of $3.8 trillion to $1.9 trillion over the next 75 years. Of course, the transition from the current system to this combination would require some federal borrowing before the system's economics are reversed. But under reasonable estimates of participation in investment accounts, all borrowing would be completed by the end of the 75-year period. At that time, the Social Security system would be in financial balance and would be self-sustaining.

The time for this type of reform is running out. After the baby-boomers start to retire in 2011, their benefit formulas will in effect be locked in—politically it is virtually impossible to change these formulas for those in or near retirement. Thus, to fix the long-term finances of Social Security, Congress has a one-time opportunity to link personal retirement accounts with benefit reform through the introduction of progressive indexing. That opportunity should not be missed.

Robert Pozen is chairman of MFS Investment Management, and a former member of the President's Commission to Strengthen Social Security.

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Make sure you're backed up

Genetically modified arboriculture

Down in the forest, something stirs

Jan 6th 2005
From The Economist print edition

GM trees are on their way

Get article background

IN SEPTEMBER 2004, a group of scientists from around the world announced that they had deciphered yet another genome. By and large, the world shrugged and ignored them. The organism in question was neither cuddly and furry, nor edible, nor dangerous, so no one cared. It was, in fact, the black cottonwood, a species of poplar tree, and its was the first arboreal genome to be unravelled. But perhaps the world should have paid attention, because unravelling a genome is a step towards tinkering with it. And that, in the end, could lead to genetically modified forests.

The black cottonwood was given the honour of being first tree because it and its relatives are fast-growing and therefore important in forestry. For some people, though, they do not grow fast enough. As America's Department of Energy, which sponsored and led the cottonwood genome project, puts it, the objective of the research was to provide insights that will lead to “faster growing trees, trees that produce more biomass for conversion to fuels, while also sequestering carbon from the atmosphere.” It might also lead to trees with “phytoremediation traits that can be used to clean up hazardous waste sites.”

It is also pretty sure to lead to a lot of environmental protest—hence, perhaps, the environmental emphasis of the energy department's mission statement. Given the argument about genetically modified field-crops that has taken place in some parts of the world, genetically modified forests are likely to provoke an incandescent response. Soya, maize, cotton and the like were already heavily modified for human use before biotechnologists got their hands on them. One result is that they do not do very well in the big, bad, competitive world outside the farmer's field. But trees, even the sorts favoured by foresters, are wild organisms. GM trees really might do well against their natural conspecifics.

The wood and the trees

Lofty mission statements aside, the principal commercial goals of arboreal genome research are faster growth and more useful wood. The advantage of the former is obvious: more timber more quickly. More useful wood, in this context, mainly means wood that is more useful to the paper industry, an enormous consumer of trees. In particular, this industry wants to reduce the amount of lignin in the wood it uses.

Lignin is one of the structural elements in the walls of the cells of which wood is composed. Paper is made from another of those elements, cellulose. The lignin acts as a glue, binding the cellulose fibres together, so an enormous amount of chemical and mechanical effort has to be expended on removing it. The hope is that trees can be modified to make less lignin, and more cellulose.

In a lucky break, it looks as though it might be possible to achieve both goals simultaneously. A few years ago a group of researchers at Michigan Technological University, led by Vincent Chiang, started the ball rolling. They produced aspens, another species of poplar, that have 45% less lignin and 15% more cellulose than their wild brethren, and grow almost twice as fast, as well. The mixture the team achieved leaves the combined mass of lignin and cellulose in the trunk more or less unchanged and, contrary to the expectations of many critics, the resulting trees are as strong as unmodified ones.

The trick Dr Chiang and his colleagues used was to suppress the activity of one of the genes in the biochemical pathway that trees employ to make lignin. They did this using so-called “antisense” technology.

Antisense technology depends on the fact that the message carried by a gene is encoded in only one of the two strands of the famous DNA double helix. Because of the precise pairing between the components of the two strands, the other strand carries what can, in essence, be described as an “antimessage”. The message itself is copied into a single-stranded messenger molecule which carries it to the protein-making parts of the cell, where it is translated. But if this messenger meets a single-stranded “antimessenger” before it arrives, the two will pair up. That silences the messenger. Dr Chiang therefore inserted into his aspens a gene that makes antimessengers to the lignin gene in question.

Wood can be improved in other ways, too. When it comes to papermaking, long fibres of cellulose are preferable to short ones. Thomas Moritz, of the Umea Plant Science Centre in Sweden, and his colleagues, have found out how to make hybrid poplars that reflect this industrial preference. In this case they did it by making a gene work overtime, rather than by suppressing its activity. The gene they chose is involved in the synthesis of a hormone called gibberellin and, once again, a side-effect of the alteration was to cause the trees to grow faster.

How such genetically modified trees would fit in with the natural environment is, of course, an important question—and it is important for two reasons. The first is political. The row about GM crops shows that people have to be persuaded that such technology will have no harmful effects before they will permit its introduction. But there is also a scientific reason. Trees have complex interactions with other species, some of which are necessary for their healthy growth.

Claire Halpin, of Dundee University in Scotland, and her colleagues have been looking into the question of environmental interactions using hybrid poplars that contain antisense versions of two other genes for enzymes involved in the production of lignin. The trees were grown for four years at two sites in France and England, in order to see how they fitted in with the local environment.

The trees and the bugs

The answer seems to be that they fitted in reasonably well. They grew normally and had normal diplomatic relations with the local insects and soil microbes. They also produced high-quality pulp.

A tree's interactions with soil microbes are often beneficial to it (the microbes provide nutrients) so this is an important result. But insects are frequently hostile, and some researchers are looking for ways to protect trees from them. Lynette Grace of Forest Research in Rotorua, New Zealand, for example, has taken an approach based

on introducing the gene for *Bacillus thuringiensis* (*Bt*) toxin, a natural insecticide. This gene is already used to produce versions of crops such as cotton that do not require the application of synthetic insecticides. Dr Grace and her colleagues adapted it to the radiata pine, which is plagued by the caterpillars of the painted apple moth.

Genetic modifications based on *Bt* are environmentally controversial. On the one hand, they reduce the amount of pesticide needed. On the other, there is a fear that the gene might “escape” from crops into wild plants that form the foodstuffs of benign insects. In the case of trees it might not even be necessary for the gene to jump species. GM trees, with immunity to insect pests and faster growth rates than their unmodified competitors, might simply spread by the normal processes of natural selection. That really would be survival of the fittest.

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Wireless broadband

Shan't!

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Computer chips for "open-spectrum" devices are a closed book

TELECOMMUNICATIONS used to be a closed game, from the copper and fibre that carried the messages, to the phones themselves. Now, openness reigns in the world of wires. Networks must interconnect with those of competitors, and users can plug in their own devices as they will. One result of this openness has been a lot of innovation.

Openness is coming to the wireless world, too. Cheap and powerful devices that use unlicensed and lightly regulated parts of the radio spectrum are proliferating. But there is a problem. Though the spectrum is open, the microprocessor chips that drive the devices which use it are not. The interface information—the technical data needed to write software that would allow those chips to be used in novel ways—is normally kept secret by manufacturers. The result could be a lot less innovation in the open wireless world than in the open wired one.

Take, for example, the Champaign-Urbana Community Wireless Network (CUWiN), in Illinois. This group is trying to create a so-called meshed Wi-Fi network. Wi-Fi is a wireless technology that allows broadband internet communication over a range of about 50 metres. That range could, however, be extended if the devices in an area were configured to act as "platforms" that both receive and transmit signals. Messages would then hop from one platform to another until they got to their destination. That would allow such things as neighbourhood mobile-phone companies and a plethora of radio and TV stations, and all for almost no cost. But to make such goodies work, CUWiN needs to tweak the underlying capabilities of Wi-Fi chips in special ways.

When its engineers requested the interface information from the firms that furnish the chips, however, they were often rebuffed. A few companies with low-end, older technology supplied it. But Broadcom and Atheros, the two producers of the sophisticated chips that CUWiN needs if its system is to sing properly, refused. Nor is CUWiN alone in its enforced ignorance. SeattleWireless and NYCwireless, among other groups, have similar ideas, but are similarly stymied. Christian Sandvig of the University of Illinois at Urbana-Champaign, who has been studying the brouhaha, believes regulators ought to enforce more openness.

Broadcom and Atheros say that making the interface information public would be illegal, because it could allow users to change the parameters of a chip in ways that violate the rules for using unlicensed spectrum (for example, by increasing its power or changing its operating frequency). That is a worry, but it depends on rather a conservative interpretation of the law. The current rules apply to so-called "software-defined radios" (where the ability to send and receive signals is modifiable on the chip), and do not apply directly to Wi-Fi. Also, by supplying the data, manufacturers would not be held liable if a user chose to tweak the chip in unlawful ways. And in any case, if the firms are really worried, they could release most of the interface, keeping back those features that are legally sensitive.

Nor is the interface information commercially sensitive. Engineers are not asking for the computer code that drives the interfaces, merely for the means to talk to them. And having the interface information in the public domain should eventually result in more chips being sold. So it is hard to see what the problem is beyond a dog-in-the-mangerish desire not to give anything away. Time to open it up, boys.

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Nanotechnology

Not as boring as you thought

Jan 6th 2005
From The Economist print edition

Watching paint dry may lead to some exciting new technologies

Get article background

BELIEVE it or not, there are a small but significant number of people in this world who watch paint dry for a living. And watching paint dry, if you look closely enough, is fascinating. Honest. Plenty of researchers are mesmerised by exactly how the paint comes off the brush, how the polymers within it interact in order to adhere to a surface, and what happens when the water, or other solvent, evaporates. This sort of thing reveals how the chemistry really works, and thus how to make better paint.

The excitement of watching a molecule of water lift off from the surface of a wall is, however, hampered by the fact that the only available photographs of the action are stills. It is like trying to work out how to play football from a series of time-lapse frames. But help is at hand. Andrew Humphris, chief technology officer of Infinitesima, a small firm based in Bristol, in Britain, has come up with a system that allows you to take a movie of drying paint.

The existing method of photographing molecules is more “feely” than “movie”. The camera is a device called an atomic-force microscope (AFM). This works by running the tip of a probe over the molecules in question, rather as the stylus of an old-fashioned record player runs across the surface of an LP. The bumps and grooves picked up by an AFM can be translated into a picture, but it takes between 30 seconds and a minute to build up an image. Scan much faster than that and the stylus starts to resonate, blurring the result.

But Infinitesima's VideoAFM can, according to Dr Humphris, go 1,000 times faster than a standard AFM. That is fast enough to allow videos to be taken of, for example, molecules evaporating—information of great value to the paint-making industry, to which Dr Humphris hopes to sell many of his machines. He is coy about exactly how they work, since the paper describing the details is awaiting publication in *Applied Physics Letters*. But the process for keeping the stylus under control seems to involve some high-powered computing and signal processing.

Infinitesima is testing the VideoAFM by looking at polymers as they crystallise. The movies resemble frost spreading across a chilly window. But the VideoAFM can do more than mere analysis. It can do synthesis as well. Just as a carelessly applied stylus can alter the surface of a record, so an AFM can alter the surface it is scanning at the molecular level, in effect writing on that surface. Such writing, if it were fast enough, could be used as a form of lithography for making devices whose components had dimensions of nanometres (billionths of a metre). Nanotechnology, as engineering at this scale is known, is all the rage, and nanotech firms could end up using the VideoAFM's descendants in their factories. In the meantime, live paint-drying action could soon be coming to a television near you.

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Ornithology

Ring-driven thing

Jan 6th 2005
From The Economist print edition

The oldest bird in the world

UNTIL recent decades, not that many humans made it to 50 years of age, so it is impressive to find a bird that has done so—and a small bird at that. One of the Manx shearwaters recorded in the latest edition of the British Trust for Ornithology's Ringing Report, which summarises data collected in 2003, was given its ring in 1953. Indeed, since it was ringed as an adult, and Manx shearwaters take four years to reach that exulted status, it must have been significantly over half a century old when researchers at the Copeland Bird Observatory in Northern Ireland checked its *bona fides*.

The British passion for birdwatching is well known, and often dismissed as “twitching” (though many twitchers themselves have adopted the label proudly). Nevertheless, this is one area of science where the mass observations provided by a large number of enthusiastic amateurs, backed up by those of a few ill-paid professionals who do it more for love than money, can provide vital scientific data.

Indeed, the Ringing Report contains some intriguing results. It was, for example, able to record the wandering of a wren from Cumbria in the north of England to Devon in the south—a distance of 400km (250 miles), and an astonishing hop for a bird so small. The report was also able to follow the movements of a ring-necked parakeet around London, as the British range of this colourful bird expanded. Naturalists tend to frown on such “exotic” species, regarding them as illegal aliens. But they certainly draw the eye when you see one in a London tree. And although the parakeets required human assistance to get from Asia to Britain, their arrival is only an extreme form of the constant, natural shuffling of species brought about by the movements of adventurous individuals which studies such as this seek to monitor.

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The Abbey Theatre

A state of chassis

Jan 6th 2005 | DUBLIN
From The Economist print edition

Still broke and controversial, 100 years on

THE Abbey Theatre, Ireland's national theatre, is a place of such legend that its reputation sometimes eclipses its performance. The first nights of plays by such great playwrights as J.M. Synge and Sean O'Casey took place at the Abbey, and the work of both of them caused riots. The Abbey has had its triumphs, but it has also survived long, forgettable periods. It has become an institution, and on December 27th celebrated its centenary.

The great and good of the Irish theatre were asked to a party in the Abbey's circle bar, overlooked by portraits of a quizzical-looking W.B. Yeats, who provided it with literary inspiration, and the Fay brothers, Frank and Willy (grandfather and great-uncle respectively of this reviewer), who founded the acting company. The best talk was more about the future than the past. Who would the board choose as the new artistic director when Ben Barnes leaves later this year? Where would a new national theatre be built to replace the cramped and slightly shabby building on Lower Abbey Street, just north of the Liffey? Who would pay? And how much? The tone was irreverent, even subversive. Joxer Daly, in O'Casey's “Juno and the Paycock” would understand the problem: the Abbey is in “a state of chassis”.

The Abbey got one thing brilliantly right on its anniversary. Amateur actors from all over Ireland reproduced the first-night programme: two plays by Yeats, both suffused with romantic Irish nationalism, each of them now an intriguing museum piece; a charming comedy by Lady Gregory, Yeats's collaborator; and “In the Shadow of the Glen” by Synge, which had upset leaders of the infant Republican movement that first night because of the notion that Irish peasant women were not unacquainted with the sexual urge. The performers echoed the virile amateur tradition of the original company, whose actors turned professional themselves only when the Abbey opened.

The Abbey was converted into a theatre with £1,300 given by an Englishwoman, Annie Horniman, who had

received a windfall from shares in the Hudson's Bay Company. There was never enough money. The theatre opened with £40 cash-in-hand, and today the overdraft stands at €2m ($2.7m). In September an Abbey playwright, Jimmy Murphy, proposed a motion of no confidence in the management. In December the management persuaded the government to promise emergency funding to keep a great Irish institution afloat. Still, the fright has been bad enough that talk of redundancy and reorganisation is no longer heresy. Brian Jackson, the managing director, says with a brave face that assuring the theatre's future is a “difficult but not impossible task”.

Even without the emergency funding, three-fifths of the Abbey Theatre's €4.5m annual budget comes from the state, which first handed out money in 1925. The theatre has not always sought to please its paymasters, or its audience. Yeats would not kowtow to rioters trying to halt performances of Synge's glorious “The Playboy of the Western World” and O'Casey's “The Shadow of a Gunman”, which both dwelt on flaws in the national character. Yeats's insistence on artistic freedom created the Abbey's international reputation.

Yeats was domineering, not only as an author but also as impresario. He had the arrogance to reject O'Casey's “The Silver Tassie”, for example, and O'Casey never wrote for the Abbey again. Yeats's death in 1939 left a void which proved difficult to fill. For decades the Abbey was a bywater, turning inwards to reflect a nationalist culture and feeding off revivals. In the end, the company proved too expensive to maintain and was wound up in the mid-1990s. Today the actors are freelance.

Brian Friel, the most accomplished living Irish playwright, did not offer his best work until 1990, when the Abbey put on his “Dancing at Lughnasa”. Such writers of distinction as Seamus Heaney, Tom Murphy and Frank McGuinness have recently concentrated on putting an Irish gloss on classic works, including rewriting plays by Chekhov and Ibsen. The box-office outcome was dire: all flopped. The big hit of 2004 was a revival of Dion Boucicault's entertaining 19th-century melodrama “The Shaughraun” (pictured above).

Poor Mr Barnes, artistic director since 2000, has been buffeted by criticism which is harsh even by Dublin standards —faulted, for example, by Bruce Arnold, a doyen of Dublin critics, for poor direction and sloppy artistic planning. Mr Arnold believes that the Abbey has become the victim of its dedication to Irish nationalism: “Young directors have thrown that junk out of the window. The Abbey should get back to doing good plays,” he says.

The long term is a problem too. Plans to rebuild the Abbey have made it a political plaything. The Abbey's original preference was to extend and develop the present site, but that is not an option. The taoiseach (prime minister) and his arts minister prefer a site at the northern end of O'Connell Street, but the owners of some private buildings required to create the space reject the government's offered price. “The [arts] minister wants to buy a pig for the price of a pork chop,” says Jimmy Murphy. Lady Gregory could have written a comedy about it.

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Josef Stalin

So long as he loved his mum

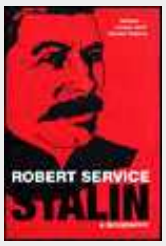
Jan 6th 2005
From The Economist print edition

Attempting to put a human face on him

IN HIS still unequalled 1991 biography, “Stalin: Breaker of Nations”, Robert Conquest found that there was “something in [Stalin's] character best thought of as an absence of life in its fullest sense.” He called the Soviet dictator a “vast, dark figure looming over the century”, defined mainly by a capacity for murder and deceit. A biographer often became attached to a subject, Mr Conquest said, but with Stalin it was “probably impossible to have that sort of sympathetic relationship”.

On this last point at least, Robert Service has proved Mr Conquest wrong. In “Stalin: A Biography”, Mr Service sets out to examine Stalin “simultaneously as leader, administrator, theorist, writer, comrade, husband, and father”. He declares Stalin to be “as wicked a man as has ever lived”, but also finds in him a “thoughtful man [who] throughout his life tried to make sense of the universe as he found it”. He portrays Stalin as a “dangerously damaged” personality but also a “hard-working” man “capable of kindness to relatives”, a “ruler of great assiduity”, a “fluent and thoughtful writer” and “a delightful purveyor of jokes and mimicry”.

Stalin: A Biography
By Robert Service



Macmillan; 528 pages; £25. To be published in America by Belknap Press in March

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Mr Service reaches into Stalin's harsh childhood for explanations of the dictator's later brutality. He argues that aggression marked Stalin's character from early youth, such that age and power merely brought opportunities for indulging this underlying viciousness on a much greater scale. He contends that Stalin's previous biographers, relying too heavily on the memoirs of rivals and enemies, grossly underestimated Stalin's intellect, political skills, and early achievements. He sets out to show—and this is the main success of his book—that Stalin was a substantial figure in Bolshevik politics well before 1917.

He foresees that his attempts to understand and explain Stalin's conduct will expose him to charges of “humanising” the dictator. And to this, he says, “I plead guilty.” His defence is that society needs to know its enemies. “If the likes of Stalin, Hitler, Mao and Pol Pot are represented as having been ‘animals’, ‘monsters’ or ‘killing machines’”, he says, “we shall never be able to discern their successors.”

In principle, Mr Service may be right. But his carefully constructed and meticulously researched book still does not manage to convey how, at the personal level, Stalin exercised his terrible power over those around him. There must have been some black magic which enabled this short, ugly man, famed for his rudeness and stumbling speech, to trap and dominate millions, but what on earth was it?

Mr Service divides his attentions so judiciously between his reporting of Stalin's public life and crimes on the one hand, and his analyses of Stalin's political skills and personal foibles on the other, that he leaves himself no time to

unshackle his own imagination and to bring his subject more instinctively to life. He leaves little time, too, for reflecting on the consequences of Stalin's orders and policies for those on the receiving end. Too many terrible things happen at a great distance from the narrative. The Katyn massacre of the Polish army officer corps in 1940, for example, gets two sentences.

As for the question of discerning future tyrants, the author himself recently wrote an article comparing—with various disclaimers and hedges—the methods of Stalin with those of Tony Blair. Say what you like about Mr Blair, he does not belong in that universe. If Mr Service himself can make such an error of judgment, then the more reason to worry that by “humanising” Stalin, you risk eroding your capacity to distinguish between tyrants and decent people. Here the reader is told that Stalin's crimes, while vast and terrible, were things which a sane, intelligent, sometimes kindly human being might do for understandable if not defensible reasons. It does not feel like a step in the right direction.

Stalin: A Biography.
By Robert Service.
Macmillan; 528 pages; £25. To be published in America by Belknap Press in March

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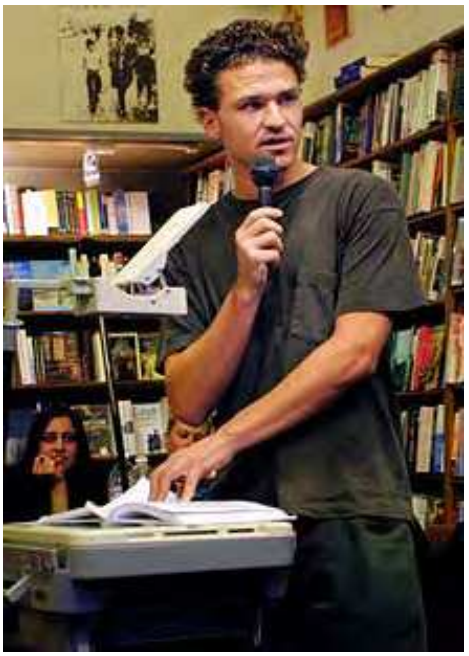
McSweeney's

Ironic tendency

Jan 6th 2005 | NEW YORK
From The Economist print edition

A literary brand has emerged among the young and hip

AP



"A HEARTBREAKING Work of Staggering Genius", Dave Eggers's quirky memoir of losing his parents to cancer and raising his younger brother, became an international bestseller when it was published in 2001. It supposedly hailed a new narrator: the desultory, contemporary dilettante who uses irony as a counterweight to cliché and anything earnest. Savvy, satirical and fluent in pop culture, this voice also uses self-deprecation to inoculate against criticism.

Mr Eggers (right) has since used his fame to boost a publishing house that has become something of a hip literary brand, notably among Americans under 40. The McSweeney's imprint has put out 25 books since 2001. Its literary journal, the *Quarterly Concern*, has a circulation of 30,000, three times that of the *Paris Review*, once better known for literary experimentation. There is even a comic website, *Timothy McSweeney's Internet Tendency*.

The McSweeney's touch has brought little-known authors into the light, such as William Vollman and Lydia Davis. Famous writers who fancy themselves misfits have also climbed aboard, including Britain's Zadie Smith and Nick Hornby.

In his introduction to a recent collection of pieces, "The Best of McSweeney's, Volume One", Mr Eggers explains that he began the journal as "a quarterly of orphaned stories", pieces rejected elsewhere. Though that idea was quickly chucked, several works from that first issue are in this collection, including a story by David Foster Wallace, delivered languidly and without paragraph breaks from an ex-convict, and an essay by Zev Borow about the Hawaiian secessionist movement. Wilfully obscure subject matter and style are something of a McSweeney's trademark.

Packaging also sets McSweeney's apart. The quarterly has an antiquarian feel, with clean text in beautiful editions; no two look alike. McSweeney's has worked to rejuvenate the beauty of books at a time when many predicted the rise of the digital novel. Yet cool design and cutesy marginalia can tire, and early gimmickry gave the impression of some kooky after-school project. "The Best of McSweeney's" redeems this reputation. Ms Smith's story of love, lust and loss, "The Girl With Bangs", is a playful meditation on visceral sexual appeal, while Gary Greenberg, a psychotherapist, has a compelling essay about his correspondence with Ted Kaczynski, the "Unabomber" murderer.

Most of these pieces are personal stories of aimlessness amid privilege, of wandering, observant types. The strongest work is a story by Mr Eggers, "Up the Mountain Coming Down Slowly", about a woman on a trip up Kilimanjaro. It is remarkable for its restraint.

This piece also runs in Mr Eggers's recent book of stories, "How We Are Hungry". Most of the subjects here are lonesome in some way, travelling (or hurtling) towards some kind of companionship or answer or feeling, while the

book's packaging resembles a leather-bound travel journal. In “The Only Meaning of the Oil-Wet Water”, a woman goes to Costa Rica in order to nudge an old friendship into a briefly gratifying romance.

Unlike Mr Eggers's memoir, which hedged every move and revealed every anxiety, these stories are impressively controlled. Sometimes the writing sparkles: warm water is “like the inside of a plum”. Mr Eggers's first work of fiction, “You Shall Know Our Velocity” (2002), did little to affirm him as a notable writer, but this new collection should do the trick.

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Damned lies and statistics

Making sense of numbers

Jan 6th 2005
From The Economist print edition

CHARTS rear up in the best and worst publications, from doctoral theses to the tabloid press. Yet the concept of drawing a graph from empirical data is a relatively recent phenomenon. Howard Wainer nominates William Playfair as the father of "modern graphical display". Playfair, something of a ne'er-do-well, Mr Wainer maintains, was a Scottish draughtsman for James Watt. By producing an "atlas" of Britain in 1786—44 charts, no maps—Playfair demonstrated that the presentation of evidence could have a beauty all its own. (*The Economist* began using charts only in the late 1920s, though it was a heavy user of data from its first issue in 1843.)

In his personalised and readable jaunt through the history of charting over the next couple of centuries, Mr Wainer introduces a varied cast of characters. They include Thomas Jefferson, who drew a chart of vegetable supply in the Washington, DC, market during 1802, John Tukey, the developer of exploratory data analysis, and Edward Tufte, arguably the best-known of current writers on visual display.

A statistics professor at the Wharton School of the University of Pennsylvania, Mr Wainer also underlines possible pitfalls in graph production. As examples, he gives irregular time periods, broken scales and alphabetical rather than ranked ordering.

In similar fashion, Jane Miller, an academic at Rutgers University who trained as a demographer, warns against common charting errors. Hers, much more a textbook, is clearly written, with a checklist at the end of each chapter, invaluable for students. It should be required reading for journalists and politicians.

Data need a context: a figure or two tells you little. The fundamental questions of journalism—who, what, when and where—have to be answered in charts too. Although Ms Miller's book is chiefly concerned with writing about numbers, the last chapter gives advice about speaking with numbers. In presentations using visual aids, she says, use no more than one slide a minute.

The core of Joel Best's sequel to his popular "Damned Lies and Statistics" is how numbers can be used to confuse public issues. Mr Best, a professor of sociology and criminal justice at the University of Delaware, looks first at missing, confusing and scary numbers. He moves on to authoritative, magical and contentious numbers, and throughout takes particular aim at figures used in the public domain. Pithy examples abound, such as the 150 people allegedly killed annually by

Graphic Discovery: A Trout in the Milk and Other Visual Adventures
By Howard Wainer

Princeton University Press; 192 pages; $29.95 and £18.95

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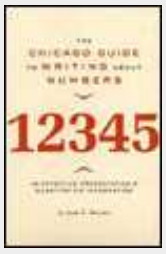
The Chicago Guide to Writing about Numbers
By Jane E. Miller



University of Chicago Press; 304 pages; $17

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More Damned Lies

coconuts, even though no one has actually made a tally. At the end, he examines the chances of teaching statistical literacy to a wider audience, arguing that “when everyone's numbers come under scrutiny, we are all held to higher standards.”

Graphic Discovery: A Trout in the Milk and Other Visual Adventures.
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The Chicago Guide to Writing about Numbers.
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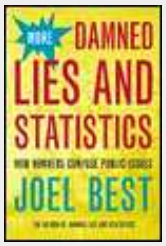
More Damned Lies and Statistics: How Numbers Confuse Public Issues.
Joel Best
University of California Press; 217 pages; $19.95 and £12.95

and Statistics: How Numbers Confuse Public Issues
By Joel Best



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New fiction

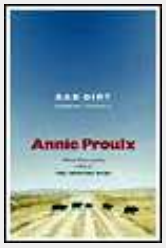
Elk Tooth tales

Jan 6th 2005
From The Economist print edition

FANS of Annie Proulx will find her latest collection of short stories as mixed as a tin of sweets. Following on loosely from “Close Range”, her fine previous collection, “Bad Dirt” is also anchored in the mountains, high prairie and “luminous yellow distance” of Wyoming. Here, distant cattle are reduced “to a handful of tossed cloves”, mountains crouch at every horizon “like dark sleeping animals” and humans struggle against being swallowed up by an environment where trouble appears from nowhere.

Several of the book's 11 stories are set in Elk Tooth, a two-bit town of three bars and 80 residents, many with mouth-clogging names: Gilbert Wolfscale, Hard Winter Ulph, Wiregrass Cokendall. Elk Tooth may be a dump, but it is one that nurtures a sense of individualism. Everyone, Ms Proulx writes, “tries to be a character and with some success. There is little more to it than being broke, proud, ingenious and setting your heels against civilized society's pull.”

Bad Dirt: Wyoming Stories 2
By Annie Proulx



Scribner; 219 pages; $25. Fourth Estate; £12.99

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The apparent futility of straitened lives is a consistent theme, adding a grittiness and power to Ms Proulx's best stories. In the strongest one, “What Kind of Furniture Would Jesus Pick?”, the author describes a rancher's alienation from his urban-minded sons. It is a “downward ranching spiral” of too much work and not enough money. Newly rich estate agents and retired cola executives circle his property like sharks, but he refuses all offers. “Them rich pricks are lower than a snake's ass in a wagon track,” he spits.

The collection trips up, though, with the inclusion of a handful of stories that veer into magical realism. These flights of fantasy sit uneasily with those grounded in the dry earth, sagebrush and fierce sunlight—the very soul of a Wyoming that Ms Proulx's writing is so at home in.

As a result, “Bad Dirt” makes a lesser impression than “Close Range”. Even so, great pleasure is still to be had from Ms Proulx's singular style of writing. She has a masterful ability to condense a character's life into punchy sentences that underpin vivid images: “With his mother gone, civilization began to fall away from him as feathers from a molting hen. In a matter of weeks he was eating straight from the frying pan.” It is this creativeness, coupled with a powerful sense of place, that makes “Bad Dirt” a worthwhile read.

Bad Dirt: Wyoming Stories 2.
By Annie Proulx.
Scribner; 219 pages; $25. Fourth Estate; £12.99

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Amazon worldwide bestsellers

The big book index

Jan 6th 2005
From The Economist print edition

The bestselling fiction titles sold over the festive season

DECEMBER'S list of bestselling fiction titles from Amazon websites around the world is probably as much about books bought for other people as those bought for oneself. Spirituality came to the fore this Christmas as Mitch Albom's fable about heaven and death took the top slot. Meanwhile the Asian tsunami lends Michael Crichton's recent new thriller about eco-terrorists plotting natural disasters a spurious prescience.

1. The Five People You Meet in Heaven.
By Mitch Albom. *Hyperion; 198 pages; $11.17. Little, Brown; £9.09*
An original and contemporary American fable that weaves together three stories about the same man and explores the idea that heaven is more than just a place—it's an answer.

Click to buy from Amazon.com or Amazon.co.uk

2. State of Fear.
By Michael Crichton. *HarperCollins; 603 pages; $16.77 and £12.59*
A techno-thriller about global warming, eco-terrorists and, yes, tsunamis.

Click to buy from Amazon.com or Amazon.co.uk

3. The Da Vinci Code.
By Dan Brown. *Doubleday; 454 pages; $14.97. Corgi Adult; £4.89*
This murder and maths bestseller confirms its status as a cult classic.

Click to buy from Amazon.com or Amazon.co.uk

4. Jonathan Strange and Mr Norrell.
By Susanna Clarke. *Bloomsbury; 800 pages; $16.77 and £7.19*
A Harry Potter-style fantasy for grown-ups, full of magic and literary illusions.

Click to buy from Amazon.com or Amazon.co.uk

5. A Salty Piece of Land.
By Jimmy Buffett. *Little, Brown; 480 pages; $16.77 and £13.16*
Tully Mars, a cowboy, takes his pony on an unforgettable Caribbean adventure. Jimmy Buffett's first novel for a decade.

Click to buy from Amazon.com or Amazon.co.uk

6. The Plot Against America.
By Philip Roth. *Houghton Miffin; 400 pages; $15.60. Jonathan Cape; £10.19*
What happens to one Jewish family when America's welcome is gradually rescinded.

Click to buy from Amazon.com or Amazon.co.uk

7. The Kite Runner.
By Khaled Hosseini. *Riverhead Books; 384 pages; $9.80. Bloomsbury; £3.99*
A poignant portrait of Afghanistan and a friendship between two boys in Kabul.

Click to buy from Amazon.com or Amazon.co.uk

8. I Am Charlotte Simmons.
By Tom Wolfe. *Farrar, Straus and Giroux; 688 pages; $11.58. Jonathan Cape; £12*
America's fearless satirist takes on campus culture in this lust-filled exposé of university life.

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9. The Curious Incident of the Dog in the Night-Time.
By Mark Haddon. *Vintage; 240 pages; $9 and £4.89*
A murder mystery with a difference, narrated by a boy with Asperger's syndrome.

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10. Sakrileg.
By Dan Brown. *Luebbe Verlagsgruppe; 605 pages; €19.90*
The German version of Dan Brown's bestselling "Da Vinci Code".

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Source: Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr, Amazon.jp from December 1st-December 30th 2004. Prices quoted from Amazon.com and Amazon.co.uk are correct as of December 30th.

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Obituary

Susan Sontag

Jan 6th 2005
From The Economist print edition

Corbis

Susan Sontag, an American intellectual, died on December 28th, aged 71

IT IS hard to be an intellectual in the United States. In France, a wizened man or woman in a black beret, smoking unfiltered Gitanes and with a copy of Sartre's “La nausée” in his pocket, is considered a national treasure. Reverent circles form around him in cafés. When he wishes to muse about the existentialist paradigm, he is given a double-page spread in *Le Monde*. His brief but seminal work, “Fifi et le nouvel hermeneutique”, wins the Prix Goncourt and is seen being read on the Métro.

In America, by contrast, intellectuals are mocked as “pointy-heads” and “nattering nabobs”. They are a tiny, struggling species, whose habitat is confined to a few uptown apartments in New York and the faculties of certain universities. There they swap thin, sad monographs on self-image and the role of gender in criticism, or vice versa, while Oprah Winfrey is hailed on national TV as the arbiter of literary taste.

Susan Sontag therefore achieved the near-impossible: she was a European-style intellectual in America, and many Americans had both heard of her, and read her books. Moreover, she wrote clearly and well, in short words and short sentences that were blessedly free of the tech-tosh that passes for English in most haunts of intellectualism. Educated Americans were delighted to find someone who had not only read Roland Barthes and Elias Canetti, as somehow they felt they ought to every time they opened the *New York Review of Books*, but who could tell them what those guys were talking about, and whether they were any good.

Whether what Miss Sontag said itself made sense was another question. She was very good at epigrams; but epigrams, after that nip of pleasure, can turn out empty. “Time liberates the work of art from moral relevance”,

she wrote in “Notes on Camp” in 1964. “Thinking is a form of feeling; feeling is a form of thinking,” she opined in “Against Interpretation” in 1966. In 1982, at a rally in New York, she famously described communism as “fascism with a human face”. All these were pretty much pure rubbish, though stated with style.

Yet Miss Sontag also managed to engage Americans with deep and relevant inquiries into modern life. In “On Photography” (1977), she subtly anatomised the social and moral impact of the ubiquitous camera lens. In “Illness as Metaphor” (1978), she described and condemned the casual use of “cancer” as a metaphor for any evil, invincible thing. In her last years, herself facing cancer with dauntless ferocity, she wrote as strongly as ever against the internments at Guantánamo Bay and the photographs from Abu Ghraib.

For much of her life, her politics was unfortunate. She was an ardent campaigner for human rights, especially for free speech for writers; but as an intellectual, especially of a European sort, she was more or less obliged to be on the hard left. A trip to Hanoi in 1968 convinced her that America was “a doomed country...founded on a genocide”. Anyone who thought the years had mellowed her received a rude shock when, after the September 11th attacks, she wrote in the *New Yorker* that America had deserved it.

Camp and romance

She was bookish almost from birth. At three, she was reading; at nine, living in Los Angeles, she was browsing Poe, Hugo and “Hamlet” in the Pickwick bookstore on Hollywood Boulevard; at 14, she discovered Thomas Mann. Each book was “a door to a whole kingdom”. In later life, when she had acquired 25,000 of them, ranged along every wall and corridor of her spartan apartment in New York, she would spend time simply pacing in front of them, thinking of all they contained.

Her writing life was not without struggle. In New York in the early 1960s, fresh-divorced and with a small son, she lived in poverty for a time, earning what she could by writing articles for the *Partisan Review*. Her first book, an experimental novel, caused bafflement. Oddly, it was the “Notes on Camp”, a series of humorous jottings, that launched her. After that, she was a fixture in all public moral debate.

She cut a solitary and intriguing figure, a sort of prowling lioness with a shock of black hair streaked with bright white, aggressively bitten fingernails, and the penetrating gaze of a woman who did not suffer fools gladly, or even people of average intelligence. Yet she was, at heart, a populist. She believed that books should be accessible. She argued, in “Against Interpretation”, that art needed to be freed from the deadening layers of criticism and analysis and allowed to speak, sensuously, for itself. (Her own medicine proved hard for her to swallow, but she tried.) She wrote as happily about the Supremes or Harpo Marx as about Camus. Her fondness for camp sprang not only from her homosexual sympathies (she lived for years with Annie Liebovitz, whose unsparing photography fitted well with her own prose), but from the fact that camp could be found in feather boas and the *National Enquirer*.

In 1992 she wrote “The Volcano Lover”, a romantic novel about Nelson and Lady Hamilton. She produced it, she said, in a delirium of pleasure. Her fans had doubtless been expecting something like “The Plague”. They forgot, perhaps—it was easy to forget—that her childhood had been spent not in Paris, but in Tinseltown.

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Overview

Jan 6th 2005
From The Economist print edition

America's Federal Reserve released the minutes of its rate-setting meeting held on December 14th. Markets interpreted the Fed's worries about inflation risks and cheap money as a signal of more interest-rate rises in the future. Short-term government **bond yields** climbed to their highest levels in more than two years and the **euro** fell against the dollar to $1.32.

America's **service industries** continued to boom in December. The ISM's (Institute for Supply Management) index of non-manufacturing activity rose to 63.1 in December, up from 61.3 in November.

Consumer-price inflation in the **euro area** quickened to 2.3% in the year to December, up from 2.2% in the year to November and from 2.0% a year ago.

In **Switzerland**, consumer prices rose by 1.3% in the year to December, up from 0.6% a year ago.

According to revised figures, **France's** economy contracted slightly in the third quarter. The previous estimate showed a minuscule rise in output. In the year to the third quarter, GDP rose by a revised 1.9%.

The ranks of **Germany's** unemployed swelled by a greater-than-expected 17,000 would-be workers in December, pushing the total number to a seven-year high. The unemployment rate, however, held steady at 10.8%.

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MARKETS & DATA

WEEKLY INDICATORS

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Output, demand and jobs

Jan 6th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.0	Q3	+ 1.2	+ 3.6	+ 3.0	+ 4.6	Q2	+ 5.7	Q3	5.2	Nov	5.7
Austria	+ 2.7	Q3	+ 3.2	+ 1.7	+ 2.1	+ 7.4	Oct	+ 2.2	Sep	4.5	Dec	4.6
Belgium	+ 2.9	Q3	+ 3.2	+ 2.5	+ 2.1	+ 3.2	Oct	– 0.8	Oct	12.8	Nov†	12.5
Britain	+ 3.1	Q3	+ 1.8	+ 3.2	+ 2.4	– 1.9	Oct	+ 6.1	Nov	4.7	Oct††	5.0
Canada	+ 3.3	Q3	+ 3.2	+ 2.8	+ 3.1	+ 3.6	Oct	+ 5.0	Oct	7.3	Nov	7.5
Denmark	+ 1.9	Q3	+ 0.2	+ 2.1	+ 2.0	– 3.3	Oct	+ 6.5	Oct	6.2	Nov	6.6
France	+ 1.9	Q3	– 0.1	+ 2.1	+ 1.8	+ 1.4	Oct	+ 2.3	Oct	9.9	Nov	9.9
Germany	+ 1.3	Q3	+ 0.4	+ 1.3	+ 1.2	+ 1.9	Oct	+ 0.1	Nov	10.8	Dec§	10.5
Italy	+ 1.3	Q3	+ 1.7	+ 1.2	+ 1.5	– 0.5	Oct	– 3.6	Sep	8.1	Apr	8.7
Japan	+ 2.6	Q3	+ 0.2	+ 3.2	+ 1.6	+ 4.3	Nov	– 2.2	Oct	4.5	Nov	5.1
Netherlands	+ 1.5	Q3	+ 1.3	+ 1.2	+ 1.2	+ 0.3	Oct	– 0.7	Sep‡	6.4	Nov**	5.6
Spain	+ 2.6	Q3	+ 2.4	+ 2.6	+ 2.4	– 7.0	Oct	+ 0.2	Oct	10.5	Oct	11.2
Sweden	+ 3.9	Q3	+ 3.8	+ 3.4	+ 2.8	+ 5.0	Oct	+ 7.9	Nov	4.9	Nov†	5.4
Switzerland	+ 1.8	Q3	+ 1.4	+ 1.8	+ 1.8	+ 3.5	Q3	– 1.0	Oct	3.9	Nov†	4.0
United States	+ 4.0	Q3	+ 4.0	+ 4.4	+ 3.5	+ 3.8	Nov	+ 4.3	Nov	5.4	Nov	5.9
Euro area	+ 1.8	Q3	+ 1.2	+ 1.8	+ 1.6	+ 1.0	Oct	– 0.2	Oct	8.9	Oct	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.2	Q3	+ 4.3	na	na	+ 3.1	Nov	+ 2.8	Oct	8.1	Nov†	8.2
Greece	+ 3.8	Q3	+ 1.8	na	na	– 3.1	Oct	+ 4.2	Sep	na		na
Iceland	+ 7.4	Q3	na	na	na	na		na		2.7	Oct†	2.8
Ireland	+ 5.8	Q3	na	na	na	– 5.8	Oct	+ 1.2	Oct	4.3	Nov	4.5
Luxembourg	+ 2.1	2003	na	na	na	+ 5.2	Sep	+ 2.8	Sep	4.3	Oct	4.0
New Zealand	+ 4.0	Q3	+ 1.9	na	na	+ 5.5	Q2	+ 7.4	Q3	3.8	Q3	4.4
Norway	+ 1.6	Q3	– 3.9	na	na	+ 1.2	Oct	+ 2.4	Oct	3.5	Nov‡	3.7
Portugal	+ 0.8	Q3	– 4.9	na	na	– 3.8	Nov	+ 4.4	Oct	6.8	Q3†	6.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Aug-Oct; claimant count rate 2.7% in Nov. §EU harmonised rate 10.0% in Dec. **Sep-Nov.

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Prices and wages

Jan 6th 2005
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2004	The Economist poll consumer prices forecast 2005	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.3	Q3	+ 2.6	+ 2.3	+ 2.5	+ 6.1	Q3	– 0.1	+ 3.7	Q3	+ 5.1
Austria	+ 2.6	Nov	+ 1.3	+ 2.0	+ 1.7	+ 5.2	Dec	+ 2.5	+ 2.0	Nov	+ 2.3
Belgium	+ 2.3	Dec	+ 1.7	+ 2.1	+ 1.7	+ 5.6	Nov	– 0.3	+ 2.4	Oct	+ 1.8
Britain	+ 1.5	Nov*	+ 1.3	+ 1.5	+ 1.7	+ 3.5	Nov	+ 1.7	+ 4.1	Oct†	+ 3.6
Canada	+ 2.4	Nov	+ 1.6	+ 1.9	+ 2.1	+ 5.4	Oct	– 4.0	+ 2.6	Sep	+ 3.0
Denmark	+ 1.3	Nov	+ 1.5	+ 1.2	+ 1.6	+ 3.2	Nov	+ 0.6	+ 2.9	Q3	+ 3.7
France	+ 2.0	Nov	+ 2.3	+ 2.2	+ 1.6	+ 3.1	Nov	+ 0.8	+ 2.7	Q3	+ 2.9
Germany	+ 2.0	Dec	+ 1.1	+ 1.8	+ 1.3	+ 4.1	Nov	+ 1.3	+ 2.2	Oct	+ 1.9
Italy	+ 2.0	Dec	+ 2.5	+ 2.3	+ 2.0	+ 4.2	Nov	+ 1.2	+ 2.7	Nov	+ 2.5
Japan	+ 0.8	Nov	– 0.5	– 0.1	nil	+ 2.0	Nov	– 0.5	+ 1.4	Nov	+ 0.1
Netherlands	+ 1.2	Dec	+ 1.7	+ 1.3	+ 1.2	+ 5.6	Nov	+ 1.1	+ 1.0	Nov	+ 2.4
Spain	+ 3.5	Nov	+ 2.8	+ 3.0	+ 2.8	+ 5.2	Nov	+ 1.3	+ 2.2	Q3	+ 3.1
Sweden	+ 0.5	Nov	+ 1.4	+ 0.7	+ 1.5	+ 2.9	Nov	– 1.6	+ 3.7	Oct	+ 3.2
Switzerland	+ 1.3	Dec	+ 0.6	+ 0.8	+ 1.2	+ 1.9	Nov	– 0.2	+ 1.4	2003	+ 1.8
United States	+ 3.5	Nov	+ 1.8	+ 2.7	+ 2.4	+ 5.1	Nov	+ 3.4	+ 2.4	Nov	+ 2.2
Euro area	+ 2.3	Dec	+ 2.0	+ 2.1	+ 1.8	+ 4.0	Oct	+ 0.8	+ 2.0	Q3	+ 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.5	Nov	+ 0.5	na	na	+ 1.8	Nov	– 0.2	+ 3.1	Q3	+ 4.3
Greece	+ 3.1	Nov	+ 3.3	na	na	+ 2.9	Oct	+ 1.8	na		na
Iceland	+ 3.9	Dec	+ 2.7	na	na	+ 5.9	Dec	+ 3.5	+ 5.4	Nov	+ 5.5
Ireland	+ 2.9	Nov	+ 2.2	na	na	– 1.6	Nov	– 8.4	+ 4.5	Q3	+ 4.6
Luxembourg	+ 2.4	Nov	+ 1.8	na	na	+14.6	Oct	+ 1.0	– 0.1	Sep	na
New Zealand	+ 2.5	Q3	+ 1.5	na	na	+ 2.5	Q3	+ 0.1	+ 2.2	Q3	+ 2.3
Norway	+ 1.2	Nov	+ 1.4	na	na	+13.3	Nov	+ 7.4	+ 4.6	Q3	+ 4.2
Portugal	+ 2.5	Nov	+ 2.5	na	na	+ 5.1	Nov	– 0.3	+ 1.4	Sep	– 1.8

*New series. RPI inflation rate 3.4% in Nov. †Aug-Oct.

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Economic forecasts

Jan 6th 2005
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The Economist poll of forecasters, January averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2004	2005	2004	2005	2004	2005	2004	2005
Australia	3.4/4.4	2.5/3.3	3.6	3.0 (3.1)	2.3 (2.4)	2.5	–6.0(–5.9)	–5.4
Austria	1.5/2.0	1.4/2.3	1.7	2.1	2.0 (1.9)	1.7	–0.6(–0.5)	–0.7 (–0.6)
Belgium	1.8/2.7	1.3/2.5	2.5	2.1	2.1 (2.0)	1.7	3.6 (3.2)	3.4 (3.2)
Britain	3.1/3.2	1.9/3.2	3.2	2.4	1.5	1.7	–2.4(–2.5)	–2.6 (–2.7)
Canada	2.6/3.0	2.5/3.6	2.8 (2.9)	3.1	1.9	2.1	2.8 (2.7)	2.2 (2.3)
Denmark	1.9/2.3	1.5/2.5	2.1 (2.2)	2.0 (2.2)	1.2	1.6 (1.7)	2.9 (3.0)	2.6
France	1.9/2.3	1.3/2.2	2.1 (2.2)	1.8 (1.9)	2.2	1.6	0.1 (0.2)	0.1 (0.2)
Germany	1.1/1.7	0.9/1.6	1.3 (1.4)	1.2 (1.4)	1.8	1.3 (1.4)	3.1 (3.3)	2.9 (3.1)
Italy	1.1/1.3	0.8/2.0	1.2	1.5	2.3	2.0	–0.8(–0.9)	–0.9 (–1.0)
Japan	2.7/4.0	0.5/2.8	3.2 (3.9)	1.6 (1.9)	–0.1	nil	3.3 (3.5)	3.4
Netherlands	1.0/1.4	0.7/1.5	1.2	1.2 (1.3)	1.3 (1.4)	1.2	3.0 (2.9)	3.0
Spain	2.5/2.7	2.0/2.7	2.6	2.4 (2.5)	3.0	2.8	–3.7(–3.3)	–3.9 (–3.6)
Sweden	3.0/3.8	2.3/3.3	3.4	2.8	0.7	1.5 (1.6)	7.6 (7.3)	6.7 (6.6)
Switzerland	1.7/2.0	1.2/2.1	1.8	1.8	0.8	1.2	12.4(11.7)	11.9 (11.2)
United States	4.4/4.5	2.9/4.1	4.4	3.5	2.7	2.4 (2.3)	–5.5	–5.6
Euro area	1.7/1.9	1.3/2.0	1.8	1.6 (1.7)	2.1	1.8	0.5	0.5

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month, *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel has again become gloomier about the outlook for Japan and the euro area in 2005. It now expects Japan to grow by 1.6%, down from 1.9% in December. And it is forecasting euro-area growth of 1.6%, down from 1.7% last month. Germany is tipped to grow by 1.2%, down from 1.4% in December. America is forecast to grow in 2005 by 3.5%, the fastest rate among the 15 countries. However, its current-account deficit will remain worryingly large, equivalent to 5.6% of GDP this year.

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Money and interest rates

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	Money supply* % change on year ago			Interest rates % a year (Jan 5th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 3.3	+ 9.9	Nov	5.44	5.53	5.18	5.46	5.78	6.33
Britain	+ 5.2	+ 8.5	Nov	4.81	4.00	4.42	4.54	4.29	5.25
Canada	+12.1	+ 9.9	Nov	2.47	2.51	3.04	4.39	4.70	5.82
Denmark	+12.0	+12.5	Nov	2.25	2.20	2.55	3.78	4.35	5.07
Japan	+ 3.9	+ 2.1	Nov	0.02	0.02	0.10	1.40	1.37	1.48
Sweden	+ 2.2	+ 4.9	Nov	2.00	2.63	2.25	3.78	4.66	2.33
Switzerland	– 5.4	+ 1.4	Nov	0.73	0.26	0.85	2.21	2.62	2.31
United States	+ 6.2	+ 5.4	Nov	2.52	1.03	3.21	4.27	4.24	5.61
Euro area†	+ 9.7	+ 6.0	Nov	2.15	2.10	2.51	3.62	4.19	3.89

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.85%, Japan No. 265 1.40%. Central bank rates: US fed funds 2.25%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jan 6th 2005
From The Economist print edition

1995=100

	Dec 28th	Jan 4th*	% change on one month	% change on one year
Dollar index				
All items	90.6	89.2	+ 1.1	– 2.0
Food	83.2	82.1	+ 1.3	– 6.1
Industrials				
All	100.6	98.8	+ 1.0	+ 3.1
Nfa†	82.9	82.7	+ 1.7	– 9.9
Metals	115.5	112.4	+ 0.5	+13.2
Sterling index				
All items	74.0	74.7	+ 4.3	– 5.2
Euro index				
All items	87.6	88.2	+ 2.2	– 6.0
Yen index				
All items	99.5	99.0	+ 2.7	– 3.7
Gold				
$ per oz	443.38	425.93	– 5.8	+ 0.9
West Texas Intermediate				
$ per barrel	41.85	42.17	+ 1.9	+25.4

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jan 6th 2005
From The Economist print edition

Market indices

		2004-05		% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
	Jan 5th	high	low				
Australia (All Ordinaries)	4,043.4	4,060.7	3,274.9	nil	– 0.4	+22.3	+24.4
Austria (ATX)	2,447.0	2,469.9	1,568.9	+ 0.7	– 0.9	+58.4	+66.7
Belgium (Bel 20)	2,971.8	2,987.1	2,244.2	+ 1.3	–19.3	+32.4	+39.4
Britain (FTSE 100)	4,806.0	4,847.0	4,287.0	– 0.3	–30.7	+ 7.4	+13.2
Canada (Toronto Composite)	9,021.1	9,287.4	8,123.5	– 2.3	–20.8	+ 9.7	+15.8
Denmark (KBX)	258.0	260.2	219.0	+ 0.5	–14.5	+20.8	+27.2
France (SBF 250)	2,637.1	2,659.5	2,386.1	+ 0.1	–39.9	+ 9.4	+15.1
(CAC 40)	3,829.4	3,863.3	3,465.3	+ 0.1	–44.7	+ 7.6	+13.3
Germany (DAX)	4,258.2	4,291.5	3,647.0	+ 0.2	–47.2	+ 7.4	+13.0
Italy (BCI)	1,482.3	1,484.4	1,239.5	+ 0.5	–32.1	+18.0	+24.2
Japan (Nikkei 225)	11,437.5	12,163.9	10,365.4	+ 0.5	–70.6	+ 7.1	+10.5
(Topix)	1,143.4	1,217.9	1,022.6	+ 0.3	–60.4	+ 9.5	+13.0
Netherlands (AEX)	350.2	364.8	310.7	+ 0.8	–50.1	+ 3.7	+ 9.2
Spain (Madrid SE)	956.0	965.4	804.4	– 0.5	–16.6	+18.3	+24.5
Sweden (Affarsvarlden Gen)	222.4	224.4	188.5	+ 0.7	–44.4	+18.1	+24.9
Switzerland (Swiss Market)	5,725.5	5,934.4	5,309.7	+ 0.6	–31.9	+ 4.3	+10.5
United States (DJIA)	10,597.8	10,854.5	9,750.0	– 2.1	– 9.6	+ 1.4	+ 1.4
(S&P 500)	1,183.7	1,213.6	1,063.2	– 2.4	–22.5	+ 6.5	+ 6.5
(NASDAQ Comp)	2,091.2	2,178.3	1,752.5	– 3.9	–58.6	+ 4.4	+ 4.4
Europe (FTSE Eurotop 300)*	1,043.7	1,050.9	940.9	+ 0.2	–38.8	+ 9.0	+14.7
Euro area (FTSE Ebloc 100)*	900.8	908.0	787.2	nil	–41.9	+ 8.3	+14.0
World (MSCI)†	1,142.3	1,170.0	997.0	– 2.0	–21.2	+10.2	+12.7
World bond market (Citigroup)‡	656.2	666.7	575.1	– 0.8	– 1.6	+ 8.7	+10.3

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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MARKETS & DATA

WEEKLY INDICATORS

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Trade, exchange rates and budgets

Jan 6th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		Current-account balance The Economist poll % of GDP, forecast 2004	Current-account balance The Economist poll % of GDP, forecast 2005	Exchange rate trade-weighted† 1990=100 Jan 5th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Jan 5th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 16.6	Oct	− 36.2	Q3	− 6.0	− 5.4	86.4	88.9	1.30	1.30	2.46	1.73	1.26	+ 0.7
Austria	− 0.1	Oct	− 1.6	Oct	− 0.6	− 0.7	103.3§	102.8	0.75	0.79	1.42	–	0.73	− 1.5
Belgium	+ 21.1	Oct	+ 11.7	Sep	+ 3.6	+ 3.4	103.6§	103.0	0.75	0.79	1.42	–	0.73	− 0.1
Britain	−103.2	Oct	− 47.4	Q3	− 2.4	− 2.6	101.7	101.8	0.53	0.55	–	0.70	0.51	− 3.2
Canada	+ 49.6	Oct	+ 26.7	Q3	+ 2.8	+ 2.2	93.1	89.3	1.22	1.29	2.31	1.63	1.18	+ 1.1
Denmark	+ 9.5	Oct	+ 6.2	Oct	+ 2.9	+ 2.6	107.4	107.1	5.60	5.87	10.6	7.44	5.40	+ 0.9
France	− 5.2	Oct	− 3.1	Oct	+ 0.1	+ 0.1	107.2§	106.4	0.75	0.79	1.42	–	0.73	− 3.7
Germany	+189.2	Oct	+ 91.5	Oct	+ 3.1	+ 2.9	105.0§	103.9	0.75	0.79	1.42	–	0.73	− 3.9
Italy	+ 0.1	Oct	− 11.8	Oct	− 0.8	− 0.9	76.4§	75.8	0.75	0.79	1.42	–	0.73	− 2.9
Japan	+135.8	Oct	+169.9	Oct	+ 3.3	+ 3.4	136.8	136.6	104	106	196	138	–	− 6.5
Netherlands	+ 35.6	Oct	+ 21.0	Q3	+ 3.0	+ 3.0	103.2§	102.4	0.75	0.79	1.42	–	0.73	− 2.9
Spain	− 70.5	Oct	− 41.3	Sep	− 3.7	− 3.9	77.6§	77.1	0.75	0.79	1.42	–	0.73	− 1.1
Sweden	+ 22.5	Nov	+ 26.2	Q3	+ 7.6	+ 6.7	83.5	82.5	6.80	7.17	12.8	9.03	6.55	+ 0.5
Switzerland	+ 8.1	Nov	+ 45.9	Q2	+12.4	+11.9	113.4	111.4	1.17	1.24	2.20	1.55	1.12	− 1.6
United States	−634.0	Oct	−603.2	Q3	− 5.5	− 5.6	90.3	93.8	–	–	1.89	1.33	0.96	− 4.4
Euro area	+ 94.7	Oct	+ 47.3	Oct	+ 0.5	+ 0.5	94.2	92.7	0.75	0.79	1.42	–	0.73	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.7	Oct	+ 7.7	Oct	na	na	82.4§	81.7	0.75	0.79	1.42	–	0.73	+ 2.3
Greece	− 30.3	Oct	− 10.3	Sep	na	na	59.8§	59.5	0.75	0.79	1.42	–	0.73	− 5.3
Iceland	− 0.5	Oct	− 0.6	Q3	na	na	96.6**	93.2	62.6	70.0	118	83.1	60.3	+ 0.1
Ireland	+ 41.5	Oct	− 1.6	Q3	na	na	95.5§	94.7	0.75	0.79	1.42	–	0.73	+ 0.2
Luxembourg	− 4.3	Sep	+ 2.1	Q2	na	na	103.6§	103.0	0.75	0.79	1.42	–	0.73	− 0.4
New Zealand	− 2.8	Nov	− 5.3	Q3	na	na	106.6	104.0	1.42	1.49	2.69	1.89	1.37	+ 2.9
Norway	+ 33.6	Nov	+ 33.2	Oct	na	na	98.4	94.2	6.23	6.78	11.8	8.27	6.00	+ 8.2
Portugal	− 17.4	Sep	− 12.0	Oct	na	na	93.6**	93.3	0.75	0.79	1.42	–	0.73	− 2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, October average. ‡OECD estimate. **IMF, August average.

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Mergers and acquisitions

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Overview

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India's GDP growth slowed to 6.6% in the year to the third quarter, from 7.4% in the second quarter. Its external current-account moved into deficit in the third quarter, reducing the 12-month surplus to $3.5 billion. Inflation fell to 4.2% in November.

On January 1st, **Turkey** knocked six noughts off the face value of its currency: one lira is now worth 1m of the old ones.

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Stockmarkets

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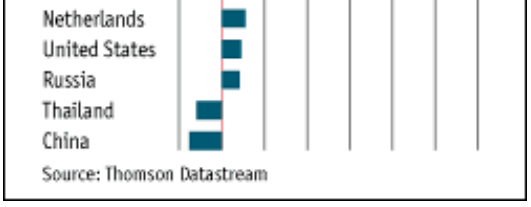
In 2004 the best performing stockmarket (among those tracked by *The Economist*) was Colombia, with a gain of 120% in dollar terms. The worst performer, for the second year running, was China, where, despite rapid economic growth, share prices fell by 15%. Thailand was the only other market to suffer a decline. The S&P 500's 9% gain ranked only 37th out of 40.



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Economist Conferences

Anything strike you?

Economy

Jan 6th 2005

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.1	Q3	+14.8	Nov	+ 2.8	Nov	+26.6	Nov	+45.9	2003	514.5	Sep
Hong Kong	+ 7.2	Q3	+ 3.4	Q3	+ 0.2	Nov	−12.4	Nov	+14.2	Q3	121.5	Nov
India	+ 6.6	Q3	+10.1	Oct	+ 4.2	Nov	−21.3	Nov	+ 3.5	Q3	121.2	Nov
Indonesia	+ 5.0	Q3	− 2.3	Aug	+ 6.4	Dec	+24.3	Nov	+ 4.0	Q3	34.6	Nov
Malaysia	+ 6.8	Q3	+ 6.9	Oct	+ 2.2	Nov	+21.2	Nov	+14.7	Q3	62.2	Nov
Philippines	+ 6.3	Q3	+ 9.0	Oct	+ 7.9	Dec	− 1.3	Oct	+ 4.4	Sep	12.6	Nov
Singapore	+ 5.4	Q4	+13.2	Nov	+ 1.7	Nov	+15.1	Nov	+29.0	Q3	110.1	Nov
South Korea	+ 4.6	Q3	+10.1	Nov	+ 3.0	Dec	+29.8	Dec	+27.5	Nov	192.5	Nov
Taiwan	+ 5.3	Q3	+ 5.4	Nov	+ 1.6	Dec	+ 8.1	Nov	+24.8	Q3	241.7	Dec
Thailand	+ 6.0	Q3	+ 9.5	Nov	+ 2.9	Dec	+ 1.3	Nov	+ 7.0	Nov	47.1	Nov
Argentina	+ 8.3	Q3	+ 5.4	Nov	+ 6.1	Dec	+12.2	Nov	+ 3.6	Q3	19.6	Dec
Brazil	+ 6.1	Q3	+ 2.7	Oct	+ 7.2	Nov	+33.7	Dec	+10.7	Nov	50.1	Nov
Chile	+ 6.8	Q3	+ 9.9	Nov	+ 2.4	Dec	+ 8.2	Nov	+ 2.0	Q3	16.0	Nov
Colombia	+ 2.4	Q3	+ 2.4	Sep	+ 5.5	Dec	+ 0.9	Oct	− 1.4	Q3	12.8	Nov
Mexico	+ 4.4	Q3	+ 1.8	Oct	+ 5.4	Nov	− 6.9	Nov	− 5.5	Q3	60.9	Oct
Peru	+ 2.1	Oct	+ 6.1	Oct	+ 3.5	Dec	+ 2.4	Oct	− 0.3	Q3	11.5	Nov
Venezuela	+15.8	Q3	+14.7	Oct	+19.2	Dec	+21.5	Q3	+14.4	Q3	16.4	Sep
Egypt	+ 4.3	2004†	+ 3.3	2004‡	+11.9	Sep	− 8.1	Q3	+ 4.1	Q3	13.5	Aug
Israel	+ 3.4	Q3	+ 8.2	Oct	+ 0.9	Nov	− 6.2	Nov	+ 0.5	Q3	27.2	Nov
South Africa	+ 3.8	Q3	+ 5.3	Oct	+ 3.7	Nov	− 1.5	Nov	− 4.7	Q3	12.6	Nov
Turkey	+ 4.5	Q3	+ 1.5	Oct	+ 9.3	Dec	−34.2	Nov	−14.2	Oct	35.3	Nov
Czech Republic	+ 3.6	Q3	+ 8.1	Oct	+ 2.9	Nov	− 1.2	Nov	− 6.4	Q3	28.2	Nov
Hungary	+ 3.7	Q3	+ 8.4	Oct	+ 5.8	Nov	− 2.5	Q3	− 8.6	Q3	15.2	Nov
Poland	+ 4.8	Q3	+11.3	Nov	+ 4.5	Nov	− 5.6	Oct	− 4.3	Oct	35.8	Nov
Russia	+ 6.4	Q3	+ 6.0	Nov	+11.7	Nov	+80.6	Oct	+49.5	Q3	113.7	Nov
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 6.1	Q3	+ 6.3	Oct	+ 4.7	Nov	− 2.5	Sep	− 1.5	Q2	1.5	Oct
Latvia	+ 9.1	Q3	− 0.8	Oct	+ 7.2	Nov	− 2.6	Oct	− 1.6	Oct	1.8	Oct
Lithuania	+ 5.8	Q3	na		+ 3.0	Nov	− 3.1	Oct	− 1.8	Q2	3.4	Oct
Slovakia	+ 5.3	Q3	+ 0.2	Oct	+ 6.3	Nov	− 1.0	Oct	− 1.0	Aug	13.0	Oct
Slovenia	+ 4.9	Q3	− 3.0	Oct	+ 3.6	Nov	− 1.0	Oct	− 0.8	Oct	8.0	Sep
Pakistan	+ 6.4	2004†	+18.6	Jul	+ 9.3	Nov	− 5.3	Nov	+ 0.8	Q3	9.8	Nov
Saudi Arabia	+ 7.2	2003	na		+ 0.4	Oct	+59.1	2003	+28.0	2003	27.1	Oct

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡Year ending June, new series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; PIEL; ERG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

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	Currency units per $ Jan 5th	Currency units per $ year ago	Currency units per £ Jan 5th	Interest rates short-term % a year	Stockmarkets Jan 5th	% change on one week	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
China	8.28	8.28	15.6	3.15	1,314.4	– 1.7	– 16.2	– 16.2
Hong Kong	7.79	7.76	14.7	0.55	13,764.4	– 3.5	+ 9.4	+ 9.1
India	43.7	45.5	82.5	5.39	6,458.8	– 1.7	+ 10.6	+ 15.5
Indonesia	9,310	8,363	17,579	7.56	1,015.4	+ 1.1	+ 46.8	+ 32.8
Malaysia	3.80	3.80	7.18	2.82	908.0	nil	+ 14.4	+ 14.4
Philippines	56.2	55.2	106.1	7.50	1,875.4	+ 2.9	+ 30.0	+ 28.4
Singapore	1.65	1.70	3.11	1.56	2,071.0	+ 0.6	+ 17.4	+ 21.0
South Korea	1,046	1,187	1,976	3.45	885.2	+ 0.1	+ 9.2	+ 24.3
Taiwan	31.9	33.8	60.3	1.35	5,988.4	– 1.6	+ 1.7	+ 8.1
Thailand	39.1	39.0	73.8	2.40	683.5	+ 2.9	– 11.5	– 10.3
Argentina	2.97	2.87	5.61	4.88	1,305.6	– 6.0	+ 21.8	+ 20.2
Brazil	2.70	2.86	5.10	17.74	24,691.8	– 5.6	+ 11.0	+ 18.7
Chile	564	567	1,066	2.88	8,825.8	– 1.3	+ 20.3	+ 26.3
Colombia	2,343	2,757	4,423	7.73	4,288.7	– 1.7	+ 83.8	+118.1
Mexico	11.3	10.9	21.4	8.56	12,591.3	– 3.4	+ 43.2	+ 41.9
Peru	3.27	3.46	6.18	2.99	3,736.4	+ 2.5	+ 53.4	+ 62.4
Venezuela	2,702§	2,901§	5,102	12.59	29,997.4	+ 0.9	+ 35.1	+ 42.6
Egypt	5.96	6.17	11.25	9.90	25,453.0	+ 7.2	+118.7	+126.2
Israel	4.38	4.40	8.27	1.00	629.3	– 0.1	+ 17.8	+ 18.2
South Africa	5.93	6.60	11.2	7.60	12,677.7	+ 0.5	+ 22.1	+ 37.5
Turkey	1.35**	1.37	2.55	20.90	24,422.9	– 2.2	+ 31.1	+ 37.2
Czech Republic	22.9	25.5	43.2	2.56	1,073.4	+ 4.1	+ 62.9	+ 82.6
Hungary	185	207	350	9.19	14,779.0	+ 0.9	+ 57.6	+ 76.4
Poland	3.10	3.68	5.86	6.62	26,052.6	– 1.6	+ 25.1	+ 50.9
Russia	27.9	29.2	52.6	13.00	614.1‡	+ 2.6	+ 3.2	+ 8.3
EMF (MSCI)*	1.00	1.00	1.89	na	525.2	– 2.1	+ 18.6	+ 18.6
EMBI+†	1.00	1.00	1.89	na	326.1	– 0.8	+ 10.6	+ 10.6

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New lira.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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